Realising commercial opportunities

Annual Report and Accounts 2017

mercia technologies

Mercia Technologies is focused on the creation/ identification, funding and scaling of innovative technology businesses with high growth potential from the UK regions.

Strategic report

Governance

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Other information

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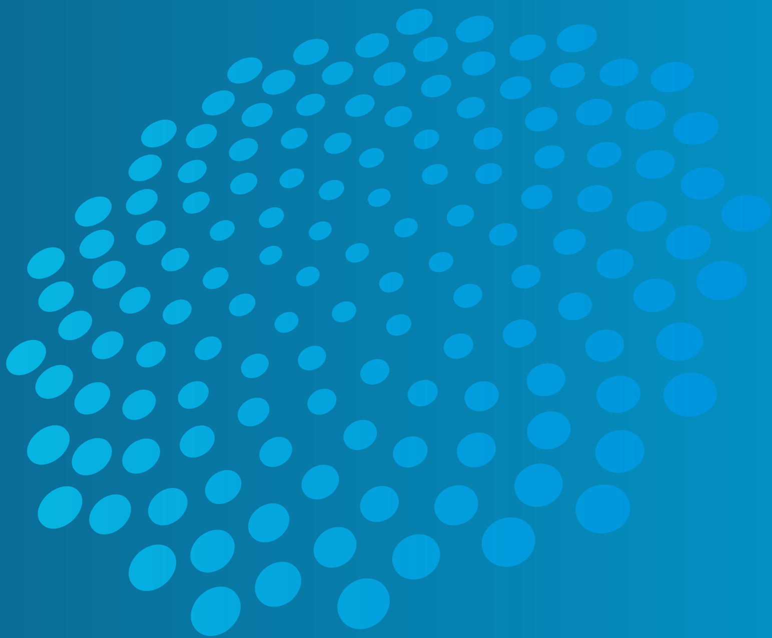


The Fibonacci sequence

The Fibonacci is nature's numbering system. Nature has taken millions of years to evolve in an efficient manner and the end result is often explained by the Fibonacci sequence. The sequence is a perfect way of illustrating patience in technology investing and is the essence of Mercia's Model.

Portfolio highlights

- £11.7million net invested in 15 portfolio companies during the year, including four new Emerging Stars
- Concepta was admitted to AIM in July 2016. Its board has recently been strengthened by the appointment of Philips UK CEO, Neil Mesher, as a non-executive director
- The fair value of nDreams has increased significantly following a successful syndicated investment round in November 2016
- Allinea Software was sold to ARM in December 2016 providing an 88.4% uplift on the Group's direct investment cost
- Fair value and realised gains totalling £5.1million indicate that the Mercia Model is working

Operational highlights

- The integration of Enterprise Ventures Group Ltd ('Enterprise Ventures') was successfully completed, creating a critical mass of more than 65 investment professionals and support staff across six locations within the UK regions
- A sustainable funnel of new investment opportunities is now built following significant new fund mandate wins which scale the Group's fund management business from circa £220.0million to circa £336.5million of funds under management
- The successful Placing which raised £40.0million in February 2017 has provided additional balance sheet capital which is predominantly to be used to scale the Group's direct investment portfolio as it continues to develop

Commercialising tomorrow's technologies

24
direct investments referred to as Mercia's 'Emerging Stars'

£11.7million
invested in 2016/17

£52.0million
value of Emerging Stars portfolio

36.5%
growth in portfolio value

2
cash exits in the year

1
IPO in the year

£1.0million
profit

£121.4million
net asset value ("NAV")

40.4 pence
NAV per share

Commercialising tomorrow's technologies

2016/17 saw Mercia successfully exit Allinea Software which it had scaled from an innovative idea into a global business, now part of ARM.

Scaling innovative technology businesses

Mercia is a national investment group focused on the creation/identification, funding and scaling of innovative technology businesses with high growth potential from the UK regions.

The Group brings together Investment Teams of industry specialists with venture capital expertise who work extensively with portfolio companies to scale each business with the aim of ultimately delivering shareholder returns over time through cash exits and IPOs.

Through Mercia's wholly owned fund management businesses, the Group is able to provide the 'Complete Capital Solution' ranging from seed rounds of £100,000 to funding rounds of £10.0million using its own balance sheet resources to scale the direct investment portfolio, which is referred to as Mercia's Emerging Stars.

In the last year the Group's regional footprint has continued to grow with two new offices (in Sheffield and Leeds) and more than 65 investment professionals and support staff at year end. This extended network will bring the Investment Teams even closer to investment opportunities on the ground; these are opportunities which others may find challenging to source without the local intelligence to which Mercia has access through its strong regional presence.

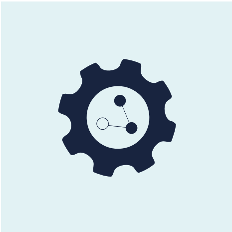
Driving quality deal flow

The blend of university partnerships and the Investment Team's extensive personal networks play an important role in helping to drive relevant deal flow to ultimately deliver shareholder value. Forging strategic partnerships with universities and expanding personal networks across Mercia's chosen sectors has been an essential early strategy to ensure that the Investment Teams have access to innovation.

Looking specifically at Mercia's university partnerships, each one has been carefully selected to dovetail with Mercia's own strategic goals, both geographically and by sector focus. Having successfully scaled the network from nine partners at IPO in December 2014 to 18 today, the last 12 months have seen the University Team develop its relationships with those partners, which has generated 11 deals during the year for Mercia's managed funds and one for the direct portfolio, Medherant.

Digital & Digital Entertainment

Software & the Internet



Electronics, Materials & Manufacturing/ Engineering

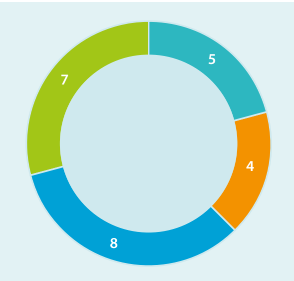
Life Sciences & Biosciences

Direct investment overview

The Group maintains a disciplined balance of sector and stage of development for businesses within the Emerging Stars portfolio.

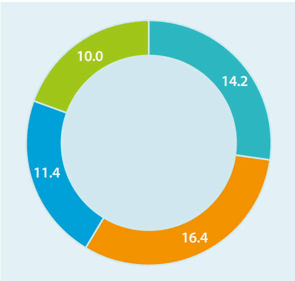
Balanced portfolio

Direct investments No.



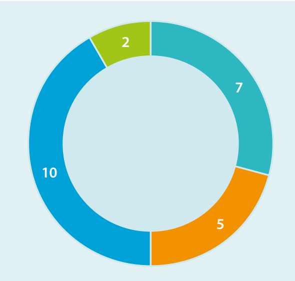
- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials & Manufacturing/Engineering
- Life Sciences & Biosciences

Direct investments £'million



- Software & the Internet
- Digital & Digital Entertainment
- Electronics, Materials & Manufacturing/Engineering
- Life Sciences & Biosciences

Direct investments No.



- Early stage
- Early revenues
- Revenue growth
- Profitable/within 12 months of profitability

Top 18 Emerging Stars

	Net investment value As at 1 April 2016 £'000	Net cash invested Year to 31 March 2017 £'000	Investment realisations Year to 31 March 2017 £'000	Fair value movement Year to 31 March 2017 £'000	Net investment value As at 31 March 2017 £'000	Percentage held As at 31 March 2017 %
nDreams Ltd	4,721	1,500	–	4,758	10,979	47.0
Science Warehouse Ltd	12,650	–	–	(2,737)	9,913	62.6
Concepta PLC	–	1,400	–	2,000	3,400	18.2
Warwick Audio Technologies Ltd	1,348	1,351	–	92	2,791	63.6
Ton UK Ltd t/a Intelligent Positioning	1,000	1,500	–	–	2,500	26.7
PsiOxus Therapeutics Ltd	1,137	–	–	1,240	2,377	1.5
Edge Case Games Ltd	1,810	500	–	–	2,310	21.2
Smart Antenna Technologies Ltd	1,827	250	–	182	2,259	28.2
Oxford Genetics Ltd	1,150	1,046	–	–	2,196	47.9
LM Technologies Ltd	1,392	378	–	–	1,770	41.5
Soccer Manager Ltd	1,599	–	–	–	1,599	29.9
VirtTrade Ltd	2,575	250	–	(1,287)	1,538	28.4
Impression Technologies Ltd	1,500	–	–	–	1,500	18.2
Crowd Reactive Ltd	1,500	–	–	–	1,500	28.3
sureCore Ltd	–	1,500	–	–	1,500	23.0
Faradion Ltd	–	1,299	–	–	1,299	13.6
The Native Antigen Company Ltd	646	–	–	495	1,141	35.6
Medherant Ltd	–	650	–	–	650	11.3
Allinea Software Ltd	1,916	–	(1,916)	–	–	–
Other direct investments	1,372	64	(155)	(475)	806	n/a
Totals	38,143	11,688	(2,071)	4,268	52,028	n/a

A year of positive progress

"
We look forward to updating shareholders on further positive net asset value progress throughout the year ahead"

Susan Searle
Non-executive Chair

The year ended 31 March 2017 was one of positive progress for Mercia Technologies PLC, having built the Group's investment model and regional infrastructure.

It included the first full year of ownership of Enterprise Ventures, the business having been acquired on 9 March 2016, enabling us to proactively build into the regions of the Midlands, the North of England and Scotland. Acquiring Enterprise Ventures has put us in a strong position to win further early-stage third party fund mandates to create a sustainable engine for growth and has completed the establishment of our Complete Capital investment model. The integration of Enterprise Ventures has been successful and the benefits of the acquisition are already demonstrable.

Progress against plan

Managing a substantial level of third party funds to support early-stage investments ensures that we have the ability to be highly selective when scaling businesses using the Group's balance sheet capital. As the direct investment portfolio continues to develop we expect to make announcements of syndicated investment rounds, following on from that of nDreams in November 2016 and more recently Impression Technologies. Oxford Genetics is another investment which is making good progress towards a syndicated investment round in the current year.

Mercia's direct investment portfolio has grown from 22 to 24 companies (net of two cash realisations) with a fair value of £52.0million as at 31 March 2017 (2016: £38.1million). During the year the Group invested £11.7million net (2016: £12.6million) into 15 of its direct investments (2016: 16), of which four are new Emerging Stars (three of which are derived from Enterprise Ventures' managed funds). From an income statement perspective, Group revenues increased to £6.7million (2016: £1.8million). Excluding fair value movements, share-based payment and amortisation non-cash charges, the Group's loss reduced to £1.6million (2016: £2.3million). This is important progress as it demonstrates that the Group can undertake all of its investment activities, but with a relatively low cash burn rate. Including these non-cash items, Mercia finished the year with a pre-exceptional operating profit of £1.9million (2016: £1.7million loss). Given the substantial new fund mandate wins by Enterprise Ventures during the year, the Group has provided for 50% of the expected deferred consideration in this year's results, as it will now be payable in a further year's time. Overall, Mercia reported a profit for the financial year of £1.0million (2016: £1.7million loss).

Mercia's hybrid investment model minimises the extent of income statement derived net asset erosion, whilst maximising the amount of balance sheet capital available for direct investment. We believe that we have now established an optimised model for providing a Complete Capital Solution to technology companies. Within our managed funds, there

Portfolio value
£52.0million
2016: £38.1million

Profit for the year
£1.0million
2016: £1.7million loss

are circa 150 technology businesses, a significant number of which over time could qualify as balance sheet investments. Historically, we have seen approximately 40-50% of these fail whilst still in the funds (as is typical with early-stage venture investing) and only some 5% come across as direct investments. We would expect that proportion to continue as we seek to select the very best businesses to scale which will enable us to achieve over time our preferred direct portfolio size of 35 to 45 direct investments.

Key events

There were many key events during the financial year which demonstrate the tangible progress that Mercia is making. Five examples are listed below:

- nDreams became our leading asset by value as it made good progress with partnerships and development of its virtual reality ("VR") games portfolio and VR hardware platforms begin to gain real traction. It has an excellent management team in place and is becoming a significant player in the sector;
- Concepta listed on AIM via a reversal into a cash shell;
- Allinea Software was sold to ARM for a total gross cash consideration of £18.1million, of which Mercia Technologies' entitlement to date has been £2.7million;
- Mercia Technologies raised a further £40.0million gross from both new and existing shareholders, predominantly to continue to invest in current and future Emerging Stars. This welcome and greatly appreciated support will enable the Group to expand its existing portfolio of 24 direct investments by both value and number whilst building towards a self-sustaining investment model;
- The Group announced that the Northern Powerhouse Investment Fund ("NPIF") had awarded £108.5million of new regionally focused fund management contracts to Enterprise Ventures. This is a significant vote of confidence in the Group's business model and the Investment Teams' track record. We are awaiting announcements on other fund bids, but those announced to date provide Mercia with approximately £150.0million in available capital to support its investment activity, taking third party funds under management to circa £336.5million. This substantial pool of investment capital preserves the Group's balance sheet cash for scaling up its Emerging Stars.

The Group's value crystallisation strategy will be principally realised through the trade sale of its direct investments. It is however worth noting that the combined stock market value of those companies in which the Group's funds under management have invested and helped shape prior to their listing is currently approximately £1.0billion. Whilst companies such as Blue Prism listed prior to Mercia's acquisition of Enterprise Ventures, this does point to the significant body of investment talent working within Mercia and our ability to identify and shape early-stage opportunities into valuable businesses. Such companies are to be found not just in London and the South East, but also within the Midlands, the North of England and Scotland.

Group Board and staff

Having succeeded Ray Chamberlain as Non-executive Chair in May 2016 my focus has been to ensure that the strategy agreed by the Board is being executed by the Executive Directors, that the Group's business model is delivering and in particular, that there remains a focus on the Group's top balance sheet investments in terms of development, scaling, the quality of management teams and their boards.

The continuing evolution of good corporate governance is also important as is Board composition and diversity. All Non-executive Directors now sit on the three Board committees to ensure continuity of purpose and as outlined more fully in the Remuneration Report, Executive remuneration is progressively being linked to strategy execution and resultant financial performance, the leading driver of which is growth in the value of the direct investment portfolio.

Bringing two businesses together is never straightforward, particularly when the staff numbers of both businesses are similar, but on behalf of our Board I should like to thank all colleagues throughout the enlarged Group for the positive spirit and professionalism in which they have come together to create 'One Mercia', a market leading, technology focused investment group.

Outlook

We look forward to the current year with a capable and experienced team, an aligned investor base, in excess of five years of managed fund capital to support our growing number of early-stage businesses and the necessary balance sheet capital to build out our developing portfolio of direct investments.

Whilst the ramifications for the UK economy arising from the current political uncertainty and Brexit negotiations will take time to become clear, technology is a sector that works without national barriers and will only increase in importance. All of the Group's direct investments have global target customer bases that are not restricted to mainland Europe; our digital businesses for example often have a strong focus on Asian markets. Mercia has assessed the possible impact of a negative outcome from the UK/EU negotiations for each of its direct investments and for the Group itself. Access to suitably skilled labour is an important growth driver for all young businesses and Mercia's portfolio companies are no exception. However, whilst this risk will be closely monitored and mitigating actions taken where appropriate, the Group does not currently see the forthcoming Brexit negotiations as a potential barrier to shareholder value creation.

A number of our comparators in the intellectual property commercialisation sector have suffered setbacks in recent months which has for the time being dampened investor appetite by some market participants in our sector. As these results clearly demonstrate however, Mercia Technologies is making solid progress on all fronts and whilst all investing activity in early-stage technology companies carries a degree of risk, the Group's hybrid investment model goes some distance towards mitigating the risk of significant net asset value reduction events through investment failures. In short, we have built a robust platform and we believe that we have the optimal investment model in the sector.

Mercia Technologies' investment momentum has accelerated at the start of the new financial year, including completing its first investment into a new Emerging Star, Intechnica, as well as completing new funding rounds into Impression Technologies, Edge Case Games, Warwick Audio Technologies and Oxford Genetics amongst others.

Mercia has been a listed company for just over two and a half years and its growing portfolio of direct investments are still, in almost all cases, relatively young companies in their own right. Despite this we can already see several material value inflexion points arising in the coming year and we look forward to updating shareholders on further positive net asset value progress throughout the year ahead.

Finally, I would like to thank shareholders for their support of the recent £40.0million Placing and look forward to turning this additional capital into increasing shareholder value through growth in the value of and exit from each of the Group's direct investments, over time.

Susan Searle
Non-executive Chair
30 June 2017

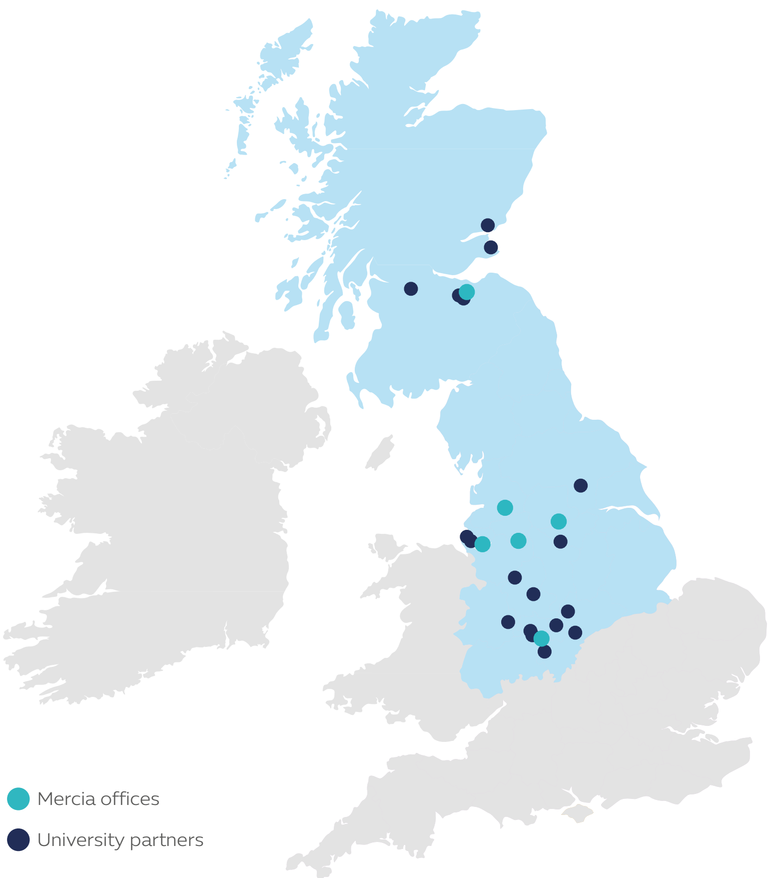
Strong regional presence across the UK

Published statistics continue to show that there is a marked undersupply of capital in the UK regions and Mercia is addressing this opportunity by building its footprint in the Midlands, the North of England and Scotland which provide an opportunity to source and scale promising businesses with reduced investment competition, and therefore more attractive pricing.

Mercia's Investment Teams are located in offices across the regions where capital is less prevalent and where the Teams' networks are complemented by carefully built university partnerships. The table below illustrates the significant differences in capital based on regional geographies.

Where we focus

- Offices located in UK key innovation hubs in the Midlands, the North of England and Scotland
- Office network complements university partnership locations



Region	2014	2015	2016
London	£1.9bn	£2.4bn	£2.3bn
South East	£440.6m	£988.0m	£637.8m
West Midlands	£87.0m	£357.5m	£88.6m
Scotland	£190.5m	£238.0m	£263.3m
East of England	£377.4m	£203.2m	£462.6m
South West	£174.5m	£204.0m	£127.5m
North West	£303.0m	£357.9m	£391.8m
Yorkshire & Humberside	£151.3m	£338.0m	£134.0m
North East	£57.0m	£166.9m	£85.5m
East Midlands	£104.0m	£111.0m	£153.0m
Wales	£64.0m	£146.5m	£71.9m
Northern Ireland	£32.0m	£15.0m	£26.8m

Beauhurst - The Deal Date 2014/15/16

Our sectors

The Investment Teams are well networked within their respective sectors and it is through their personal contacts that they are able to accelerate commercial opportunities on behalf of the portfolio companies to which they would not otherwise have access. Each of the sectors which Mercia targets are within high growth markets where the teams have significant insight and contacts. The table below shows the carefully targeted subsectors where the Investment Teams are unearthing some excellent opportunities.

5.5million
SMEs

1,145
enquiries

54
managed fund deals

4.7%
converted into new fund investments

4
Emerging Stars

0.4%
converted into new Emerging Stars

Software & the Internet:

- Cyber security
- Software as a service analytical tools
- Adtech
- Artificial intelligence

Digital & Digital Entertainment:

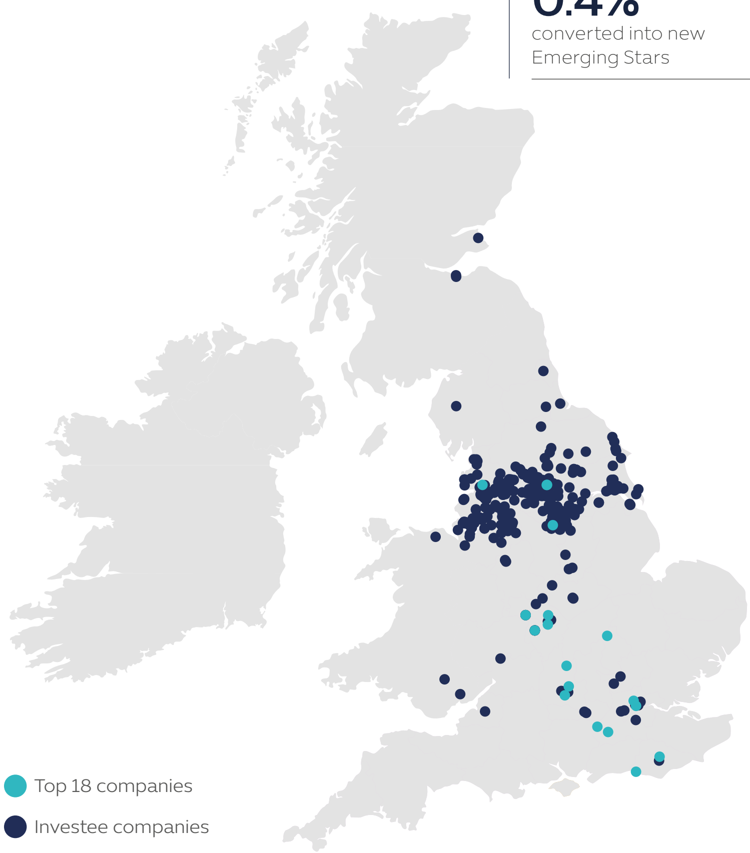
- Virtual reality
- Augmented reality
- Mixed reality
- Serious games

Electronics, Materials & Manufacturing/Engineering:

- Energy and communications
- Value electronics
- Manufacturing applications

Life Sciences & Biosciences:

- Diagnostics
- Digital health
- Medical devices



Building a sustainable platform

2016/17 saw Mercia grow its funds under management from circa £220.0million to circa £336.5million to build a sustainable funnel of proprietary deal flow.

The Mercia Model

The Mercia Model is the Group's way of summarising its investment strategy. In simplistic terms it is the Investment Teams working closely with their networks to unearth potentially valuable investment opportunities, being those with relatively modest capital requirements in high growth sectors, which will enable Mercia to commercialise the technologies of tomorrow and build shareholder value.

Deal flow sources

- Direct enquiries
- NHS Feeder Fund
- 18 university partners
- Networks
- Investment Directors' personal networks
- Regional incubators' programmes
- Regional advisers

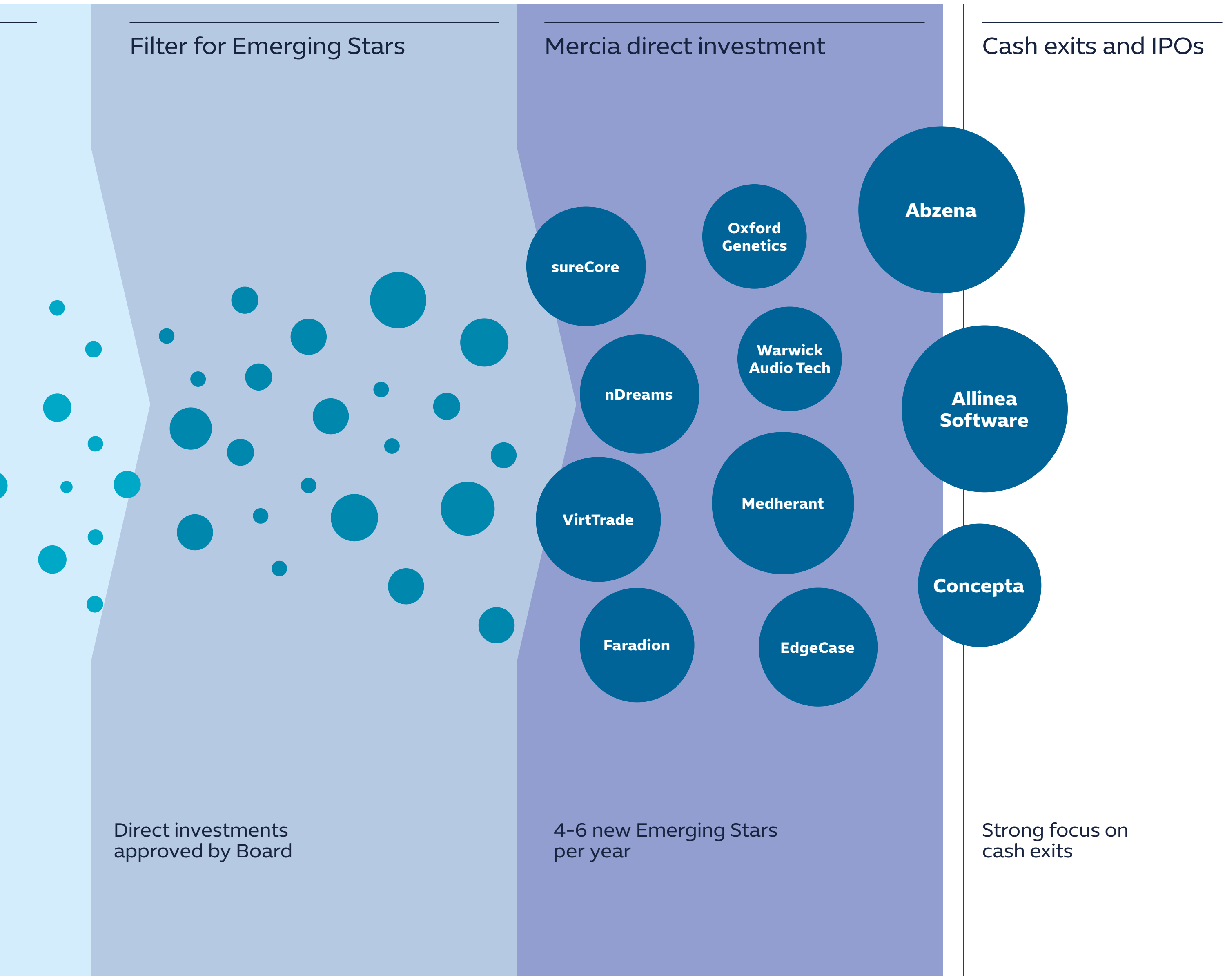
Over 1,000 approaches for investment

Mercia's third party funds under management

150 investments spread across the UK regions with 40-60 new investments per year

Selected seed funding

Several rounds of seed/early-stage investment


Filter for Emerging Stars
Mercia direct investment
Cash exits and IPOs
sureCore
Oxford Genetics
Abzena
Warwick Audio Tech
nDreams
Allinea Software
Medherant
VirtTrade
Concepta
Faradion
EdgeCase
Direct investments approved by Board
4-6 new Emerging Stars per year
Strong focus on cash exits

Delivering significant value

Strategic priorities	Progress in 2016/17	Plans for 2017/18
Build **A pipeline of future direct investment opportunities within the managed funds** **A strong regional presence in the Midlands, the North of England and Scotland** **New funds under management to support early-stage investment activity**	During the year almost £20.0million was invested from managed funds into 54 companies which further builds the pipeline for Mercia's direct investment portfolio. In addition, funds under management were grown from circa £220.0million to circa £336.5million with available capital to invest growing from circa £35.0million to over £150.0million.	We anticipate that levels of investment by the wholly owned fund management subsidiaries will increase significantly as a result of the new mandates secured. These companies form an important part of Mercia's funnel for new deal flow and the Investment Teams will be working closely with them to identify the right opportunities for follow-on investment from Mercia's balance sheet.
Expand **Leverage relationships with the managed funds' portfolio, university partners, companies and deal flow networks**	Four new direct portfolio investments were made during the year. All of these were sourced from our managed funds' portfolio including one company which was originally from our university networks.	University partners are an important element of Mercia's model with approximately 30% of investments sourced from these academic institutions. In 2017/18 we anticipate that this percentage will, reduce as the managed funds' portfolio provides a larger volume of deal flow.
Grow **Develop the direct investment portfolio by both number and value**	The direct investment portfolio has grown in value from £38.1million in 2016 to £52.0million in 2017 with 98.5% of value held within the top 18 assets.	The direct investment portfolio will continue to grow under the careful guidance of Mercia's operational specialists. Our aim remains to build a portfolio of 35-45 direct investments at any one time. We will add to the portfolio over time on a selective basis, but our main focus is to develop and grow the value of these assets and with it net asset value per share.
Deliver **Continue to demonstrate value creation through trade sales and IPOs, leading to shareholder returns and the recycling of capital**	During the year Mercia completed two profitable cash exits from the Emerging Stars portfolio; the sale of Allinea Software and the unwinding of its holding in Abzena. One further portfolio company, Concepta, was admitted to trading on AIM during the year via the reverse takeover of a cash shell.	Our Investment Teams will continue to seek exit opportunities for the portfolio which will deliver strong returns for our shareholders. These require diligence and patience and whilst understandably the Board will not forecast specific exit timetables for each investment it remains confident that profitable exits will continue in the years ahead.

Strategy in action

The Complete Capital Solution

Mercia's Complete Capital Solution describes a combination of investing managed funds into early-stage businesses, followed by balance sheet capital into those companies which are ready to scale.

Jonathan Diggines
Executive Director, Funds

As these early-stage businesses develop and both technical and commercial milestones are achieved, Mercia is able to selectively deploy capital from its own balance sheet to further develop the Emerging Stars residing in key growth sectors where the Investment Teams have significant insight and contacts. The overall journey takes time; anything from six months to seven years in the managed funds, after which it is expected that they will require further capital and support spanning anything from three to seven years.

Mercia's fund management subsidiaries play a hugely significant role in building a sustainable platform from which the Group can build shareholder value. 2016/17 saw major growth within the fund management business as it was successful in its bids to manage two new fund mandates bringing £108.5million of new investment capital through a partnership with the British Business Bank. This was the largest award made following a full and competitive procurement process. The new mandates bring a significant amount of new capital to invest over the next five years which will ensure that the pipeline of potential new investments continues to develop.

The sheer volume of opportunities which the Investment Teams look at brings tremendous insight into Mercia's investment decisions as the Teams sit at the leading edge of developments within their chosen sectors. Given the risks associated with early-stage technology investment, the Teams are highly selective about the opportunities which they pursue, both through the managed funds and beyond to the Emerging Stars portfolio.

At a time when appetite to invest in early-stage technology businesses appears out of vogue, Mercia's approach of combining managed funds with its own balance sheet capital provides a reduced risk and differentiated model which is already showing signs of delivering significant future value to shareholders and fund investors alike.

Client Fund	New Funds Secured	Type	Geography
British Business Bank	£57.5million	Venture Capital	Yorkshire, the Humber and Tees Valley
British Business Bank	£51.0million	Debt	Yorkshire and the Humber
Mercia Growth Funds	£8.6million	Venture Capital	Nationwide but with a focus on the Midlands, North of England and Scotland

"Mercia's approach of combining managed funds with its own balance sheet capital provides a reduced risk and differentiated model"

Funds under management
circa £336.5million
2016: circa £220.0million

Funds capital to invest
£150.0million
2016: £35.0million

Investing for the long term

Fundamental to the continued success of Mercia is the role that its managed funds play in generating an attractive pipeline of opportunities.

The Investment Teams dealing with the managed funds portfolio work very closely with management teams, setting commercial and technical milestones and helping them prove their technology, develop their position in their chosen markets, and put in place the necessary disciplined corporate processes in order to be able to grow.

There are many noteworthy examples of businesses within Mercia's managed funds that, with the backing of Mercia's Investment Teams, have achieved great progress, on both a national and global scale.

The investment examples in the case studies set out opposite were created by Enterprise Ventures before Mercia's acquisition. They do however illustrate the excellent track record of the Investment Teams, demonstrating what may emerge from Mercia's enlarged and growing portfolio over the near to medium term to become Emerging Star direct investments.

Case study

RisingStars Growth Funds and Blue Prism

The £19.0million RisingStars Growth Fund was raised by Enterprise Ventures in 2003 to invest in start-up and early-stage businesses with unique technologies and exceptional commercial prospects in the North West of England. This was followed in 2006 with a second fund, the £14.0million RisingStars Growth Fund II. The Funds invested in more than 50 different businesses.

To date, the most successful investment within the RisingStars Funds is Blue Prism, an investment overseen by Julian Viggars, now Mercia's Head of Technology Investments. Blue Prism, based in Newton-le-Willows in Merseyside, is a market leader in the development and supply of virtual workforces powered by software robots, referred to as Robotic Process Automation ("RPA"). The company has attracted a blue chip international customer base including IBM, Procter & Gamble, Siemens and Zurich, having listed on AIM in March 2016, raising £21.1million gross proceeds at 78.0 pence per share, at a market capitalisation of £49.0million. As at 31 March 2017 the company had a share price of 494.0 pence and was valued at £308.3million (and at 30 June 2017 the share price had increased to 769.0 pence). Blue Prism's market capitalisation has risen by circa 10x since listing and it is this rapid growth which led to it being awarded the top performing stock on AIM in 2016.

Enterprise Ventures' investment in Blue Prism at its inception in 2004 illustrates the potential of long-term technology investment. The company was supported for more than a decade as it assembled its team, developed its technology, its markets and customer base.

Return

The combined cash returns for the third party clients, including proceeds realised at the IPO and subsequently, now total £14.5million, a 16x return based on the original £900,000 invested from the RisingStars Growth Fund. As at 31 March 2017 RisingStars Growth Fund still held circa 10% of Blue Prism, valued £50.4million and as at 30 June 2017, an aggregate value multiple on investment of circa 72x.

Aggregate value multiple on investment

circa 72x

Case study

Finance Yorkshire Seedcorn Fund and OptiBiotix Health

Finance Yorkshire Seedcorn Fund, also managed by Enterprise Ventures, is a publicly supported gap fund which was launched in 2010 to invest in innovative early-stage or technology-based ventures which have the potential to become 'beacon companies' for the Yorkshire and Humber region. The Fund, which was part of the successful 2007-2013 ERDF programme, was funded by the European Investment Bank and European Regional Development Fund and made a total of 106 investments into 34 different businesses. As at 31 March 2017 the Fund was valued at £29.3million providing a 1.48x return to investors.

Within the Finance Yorkshire Seedcorn Fund portfolio there are several listed businesses including Xeros and Concepta, which subsequently became a direct investment when it joined the Emerging Stars portfolio in May 2016.

In addition, OptiBiotix Health, also part of the same portfolio, is a life sciences company formed in 2012 in York, operating in the progressive area of biotechnological research, developing compounds which modify the human microbiome to prevent and manage disease. The initial investment from managed funds in 2012 is overseen by Dr Mark Wyatt, now an Investment Director at Mercia specialising in Life Sciences and Biosciences and who held a non-executive director role at OptiBiotix Health from 2013, before being appointed to the board at the PLC when it listed on AIM in 2014 by way of a reverse takeover.

Return

From an original investment of £520,000 proceeds of more than £2.3million have been received. The Finance Yorkshire Seedcorn Fund retains a stake worth approximately £7.0million with the company's market capitalisation sitting at £53.4million at 30 June 2017, which is growth of more than 800% since admission to AIM.

The Finance Yorkshire Seedcorn Fund growth since admission to AIM

800%

Investing for the long term continued

Case study

Finding hidden value from the UK regions

Allinea Software Limited ('Allinea') is a noteworthy example of Mercia's investment strategy in action. Allinea, based in the Midlands, is a leading provider of software tools for high performance computing applications. In 2009 Mercia led the funding of a management buyout from another University of Warwick spinout using Mercia's Growth Funds. Allinea went on to become one of the Group's original direct investments at Mercia's own IPO with the holding growing from 6.9% to 16.6% as at 30 September 2016.

With continued backing from Mercia, and under the watchful eye of Sector Head Rob Johnson, Allinea was scaled into a profitable, cash generative and dividend paying business over a period of seven years. Allinea's platform is now able to address high performance computing software development, debugging and performance optimisation through the use of its core products and its software is used in circa 70% of the world's largest supercomputers. It has built relationships with many notable, blue chip customers and partners and has offices in the US, Europe and Japan.

Exit

Allinea was sold to ARM Limited ('ARM') in December 2016. It was Mercia's first Emerging Star divestment and a perfect endorsement of the Complete Capital Solution showing how Mercia's Investment Team sources and invests in attractive investment opportunities at an early-stage. The sale of Allinea to ARM is also testament to the underlying value held within Mercia's direct investment portfolio and will enable Allinea to accelerate its development and reach within the growing high performance computing markets, as well as achieving greater exposure in adjacent segments such as machine learning. As a Midlands-based business, the Allinea exit is further evidence of the hidden value that Mercia is able to unearth from the UK regions and through its university partnerships.

Return

The sale of Allinea to ARM, the world's leading semiconductor IP company, was for a total cash consideration of up to £18.1million and Mercia's share of these proceeds to date represents a return of circa 21x on the original managed fund investment cost. The cash realised to date represents an 88.4% uplift over Mercia Technologies' direct investment cost.

Total cash consideration

£18.1million

Key performance indicators

The key performance indicators ("KPIs") that have been monitored during the year ended 31 March 2017 are set out below.

Growth in value of the Group's portfolio through investment activity (before cash realisations)

£11.7million

2017 £11.7m
2016 £12.6m

How it was measured
Measured in terms of the net cash invested into direct investments

Progress
The Group has demonstrated growth in the value of its portfolio through investment activity

Growth in value of the Group's portfolio through fair value movements

£4.3million

2017 £4.3m
2016 £0.9m

How it was measured
Measured in terms of the net gain arising in the value of the portfolio using established valuation methodologies based on the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG")

Progress
Reflects a year of positive momentum in what is still a relatively young portfolio

Number of companies invested in during the year

15

2017 15
2016 16

How it was measured
Measured in terms of all companies invested in (both existing and new Emerging Stars) during the year

Progress
The Group has demonstrated growth in its direct investment activities through the number of companies in which it has invested

Cash balances and short-term liquidity investments held by the Group at the year end

£63.8million

2017 £63.8m
2016 £30.9m

How it was measured
Measured in terms of cash, cash equivalents and short-term liquidity investments held by the Group

Progress
The Group raised £40.0million gross through a Placing, whilst continuing its policy of ensuring the optimum preservation of shareholders' capital for future direct investment purposes

Third party funds under management

circa £336.5million

2017 circa £336.5m
2016 circa £220.0m

How it was measured
Measured in terms of fund management contracts secured and under active management

Progress
Includes substantial newly secured fund management contracts (equity and debt finance) for the Northern Powerhouse Investment Fund

Investment realisation proceeds received

£2.9million

2017 £2.9m
2016 £nil

How it was measured
Measured in terms of the cash proceeds received on realised investments

Progress
Although the Group's direct investment portfolio is still at a relatively early-stage, two successful cash realisations were completed during the year

Creating shareholder value

2016/17 saw Mercia make considerable progress in growing the value of its direct investments from £38.1million to £52.0million.

Focused on delivering growth in net asset value

Mercia's goal is to provide strong returns to shareholders by being the dominant provider of early-stage and scale-up capital to technology businesses in the UK regions.

"This has been a positive year for Mercia, having built a compelling and sustainable model"

Dr Mark Payton
Chief Executive Officer

The last 12 months have seen momentous changes in the political landscape, moving away from globalisation towards a more local agenda. An example of this domestically is the focus by the UK Government on boosting growth within the UK regions, with initiatives such as those driven by the British Business Bank using regional and national venture funds.

This recent period of change plays well to Mercia's own regional focus and as a result it has been a productive year. In a relatively short time frame we have built a sustainable and scalable hybrid investment model, focused on accessing and supporting young businesses via managed funds and then selectively scaling a number of these businesses, which operate with a global outlook, using Mercia's own balance sheet capital.

Mercia also has a greatly strengthened balance sheet following the recent successful £40.0million Placing. Its direct investments are already showing early signs of promise as demonstrated by the IPO of Concepta, the trade sale of Allinea Software and the unwinding of our holding in Abzena. The overall value of the portfolio rose 36.5% to £52.0million from £38.1million (net of £2.1million of investment realisations), with cash invested during the year contributing £11.7million of the growth and fair value gains contributing a further £4.3million, as the model starts to deliver.

We remain focused on what we believe to be our two key strategic objectives; (i) to accelerate the growth in value of our direct investment holdings whilst managing down side risk and turning these investments into cash, and (ii) to minimise net asset value ("NAV") erosion by offsetting operating costs with fee income and realised gains. These results demonstrate that Mercia is starting to deliver on both of these important facets of our investment model.

Built to deliver

At the time of the Group's listing on AIM in December 2014 when it raised £70.0million, Mercia had 11 direct investments (and a 20% stake in The Mercia Fund 2 Limited Partnership) valued in total at £9.0million, nine university partnerships, one office in the Midlands and approximately £20.0million in managed funds.

In March 2016, Mercia acquired Enterprise Ventures in a transaction driven by a desire to access Enterprise Ventures' managed funds' portfolio, the expertise and track record of the team and to build a strong presence in the North of England which would further scale Mercia.

Today Mercia benefits from:
- 24 direct investments valued at £52.0million
- A strong balance sheet comprising £63.8million of cash with the vast majority available for direct investment
- A material regional footprint in the Midlands, the North of England, together with a growing presence in Scotland

New capital secured
£157.1million
2016: £5.9million

Cash inflow from realisations
£2.9million
2016: £nil

- Approximately £336.5million of funds under management including circa £150.0million of capital available to invest in early-stage businesses
- 18 university partnerships

I am pleased to report that following the successful integration of Enterprise Ventures, the Investment Team has completed three direct investments so far from its managed funds' portfolio namely Concepta, Faradion and sureCore and post year end, a fourth direct investment into Intechnica.

Mercia has also been able to leverage the Investment Team's excellent track record to help secure new fund mandates totalling £108.5million, from the Northern Powerhouse Investment Fund. This provides significant levels of new capital to invest over the next five years which, when combined with the £8.6million in Enterprise Investment Scheme ("EIS") and Seed EIS ("SEIS") funds raised in the last 12 months, will enable the Group to build a sustainable funnel of potential future direct investments.

The benefits of managed fund capital are fourfold:

- Underpins a significant investment footprint across the UK regions
- Early access to compelling prospects in key technology sectors which are then shaped within our managed funds ahead of the selective allocation of scale-up capital from Mercia's balance sheet
- Using the managed fund capital for the high risk early investment phase eliminates a potential drain on Mercia's balance sheet, thus retaining direct investment capital predominantly for the most promising scale-up opportunities
- Fee generation from the managed funds materially contributes to offsetting the Group's operating costs thereby helping to minimise NAV erosion

Looking specifically at Mercia's university partnerships, each one has been carefully selected to dovetail with Mercia's own strategic goals, both geographically and by sector focus. Having successfully scaled the network from nine partners at IPO in December 2014 to 18 today, the last 12 months have seen the University Team develop its relationships with the those partners, which has generated 11 deals during the year for Mercia's managed funds and one for the direct investment portfolio, Medherant.

Strengthened asset base

The year to 31 March 2017 has started to see early signs of shareholder value creation with the IPO of Concepta in July 2016 (derived from Enterprise Ventures' managed funds), the material uplift of nDreams' fair value in November 2016, following a successful syndicated investment round, the cash sale of Allinea Software (a University of Warwick spinout) to ARM in December 2016, and the profitable unwinding of the Group's holding in Abzena (a joint University of Warwick and Imperial College spinout) in February 2017. All of these investments have been shaped over time in the Group's managed funds, from sectors in which we have deep knowledge and experience, before bringing them across as direct investments.

The strength of the Group's investment model is defined by the quality and value creation potential of Mercia's direct investments. As well as the fair value gains and realisations already referred to, there are notable developments within the portfolio in each of our four technology sectors. As an example, the Life Sciences team, headed by Peter Dines, has created a well balanced portfolio of seven investments thus far, all of which have come through our managed funds where Mercia was the early investor. Highlights include the move into profitability for the specialised in vitro diagnostic component kit provider The Native Antigen Company, the material $50.0million upfront deal secured by PsiOxus Therapeutics with Bristol-Myers Squibb, the strong revenue growth at Oxford Genetics, the disruptive technology developer Medherant utilising novel patch delivery technologies ready to move into clinical trials, and the fertility testing kit developer Concepta which listed on AIM in July 2016.

In Mercia's Digital & Digital Entertainment sector, headed by Mike Hayes, notable developments include the revenue growth and additional new game roll outs by Edge Case Games and Soccer Manager, and the continuing development of nDreams as one of the key names globally in virtual reality ("VR") software development for experiences and games. During the last year nDreams has expanded its relationships with Google, Facebook and other leading VR headset vendors and strengthened its management team with the addition of Tom Gillo (ex-game director at Sony Entertainment), David Corless (ex-head of marketing at SEGA), Paul Fitzsimons (non-executive chair, previously at Apax Partners) and Rob Precious (non-executive director, previously at Geomerics/ARM). Strong teams go hand-in-hand with successful businesses and at Mercia this continues to be a key lever for driving accelerated value creation.

Good progress is also being made by the portfolio companies in Mercia's other two investment sectors, Software & the Internet and Electronics, Materials & Manufacturing/Engineering, the latter being documented in the recent sector update.

Mercia's managed funds historically have experienced a 40-50% failure rate as is typical with early-stage investments, ensuring that risk is more measured within the direct investment portfolio. However, and in keeping with Mercia's valuation policy, during the year we made a 25% provision against our equity holding in Science Warehouse, in recognition of a decline in peer group valuation multiples.

In addition, a 50% provision has been applied to VirtTrade's equity valuation in recognition of slower market progress than anticipated.

Financial progress

Although Mercia Technologies itself is less than three years old, during the last year the Group generated £2.9million (2016: £nil) of cash inflow from direct investment realisations and net fair value gains of £4.3million (2016: £0.9million).

The Group also saw revenue (which in Mercia's case excludes fair value movements) increase to £6.7million (2016: £1.8million) and operating profit before exceptional items improve to £1.9million (2016: £1.7million loss). These positive metrics demonstrate the tangible progress which Mercia is making.

We face the years ahead with a well-funded balance sheet and a materially increased level of third party managed funds. The Investment Teams will continue to be highly selective both in terms of new fund investments and in respect of what is scaled using balance sheet capital. We will also continue to proactively seek timely exit opportunities from the direct investments, as the portfolio continues to develop.

Future developments and outlook

It is important that we continue to operate a clear and consistent approach by investing in sectors in which we have significant expertise. The complexity, scale and geography of Mercia's hybrid model is now of a size that makes it difficult for others to replicate, but we are not complacent.

As a listed business, Mercia faces a continual increase in financial and governance regulation, but we have an experienced team in place to manage this environment. Mercia's focus on minimising NAV erosion by increasing revenue generation combined with tight cost control and cash management will also continue.

With a strong regional presence, excellent Investment Teams and established deal flow networks, I remain confident that Mercia will achieve its goal to deliver incremental shareholder value by becoming the dominant provider of capital to innovative companies throughout the UK regions.

In summary, this has been a positive year for Mercia, having built a compelling and sustainable model. I would like to thank all of the Mercia team for their hard work, ambition and rigour.

Dr Mark Payton
Chief Executive Officer
30 June 2017

A balanced and growing portfolio

Significant commercial progress has been made across the Emerging Stars portfolio resulting in net fair value moments of £4.3million and investment realisations of £2.1million.

"The pipeline for further new direct investment continues to develop well"

Matthew Mead
Chief Investment Officer

Portfolio overview

In the second full year since Mercia's listing on AIM the Investment Teams have continued to focus on the direct investment portfolio by building out the management and boards of these key companies, combined with deploying further capital into existing assets that are making good commercial progress. £11.7million has been invested over the past year with four new Emerging Star investments totalling £4.9million, whilst £6.8million has been invested into 11 existing direct investments. As at 31 March 2017 the value of the Group's portfolio has increased to £52.0million from £38.1million reflecting the new investments of £11.7million, investment realisations of £2.1million and net fair value gains of £4.3million. The portfolio consists of holdings in 24 companies of which the top 18 account for 98.5% of the total portfolio value. I remain pleased with the continued commercial development of the portfolio and expect this to continue during the next 12 months.

Investment activity

Of the four new Emerging Stars, the first three came from the funds managed by Enterprise Ventures with the fourth investment, Medherant, being sourced from Mercia's EIS/SEIS Growth Funds portfolio:

- Concepta – a digital fertility/pregnancy testing business which is now AIM listed
- sureCore – a low cost, low power embedded memory technology company which is silicon-proven
- Faradion – a novel battery materials business which focuses on producing sodium-ion batteries with potential applications in home storage and transport markets
- Medherant – a University of Warwick spinout with a novel medical patch technology

Post year end, one further company has been added to the portfolio as a result of a small initial investment in Intechnica, in anticipation of a larger round later in 2017. Sourced from Enterprise Ventures' managed funds' portfolio, Intechnica is a services and software product business focused on critical business operations including ecommerce websites, high volume ordering systems, online ticketing and mobile CRM applications.

The pipeline for further new direct investments continues to develop well across each of our sectors. As already referred to, the managed funds business has grown significantly in the year as a result of new mandate wins. This increased level of activity will enable us to grow the investment run rate over the next three to five years by investing in new and existing managed funds' portfolio businesses with strong growth prospects sourced across the UK regions. This will in turn provide a proprietary flow of future Emerging Stars for our balance sheet of companies where we already have a board seat and know the asset well.

Fair value movements

The total net fair value gain in the year amounted to £4.3million compared to £0.9million in the prior year. We have recognised notable fair value uplifts at nDreams (£4.8million) based on the price of third party investment into the business, Concepta (£2.0million) as a result of successful share price progression since reversing the business into an AIM cash shell, and PsiOxus Therapeutics (£1.2million) which saw an increase in the value of the business following a major commercial deal with Bristol-Myers Squibb.

In our half year results to 30 September 2016 we recognised a provision of £2.7million against the equity holding in Science Warehouse, reflecting downward movement in peer group valuations. In the second half of the year we have also made a £1.3million provision against our equity holding in VirtTrade, to reflect slower than anticipated market progress by the business.

In December 2016, we were delighted to complete the sale of Allinea Software to ARM. This successful transaction has yielded cash proceeds of £2.7million to date and a realised gain on investment of £825,000. The disposal of Allinea Software is early validation of our investment model which is based on driving cash realisations from our assets through trade exits or IPOs. In February 2017 a second divestment was completed as we exited our minor residual direct holding in Abzena, generating net cash proceeds of £168,000 and a small realised gain of £14,000.

Portfolio composition

The year ended with a portfolio of 24 companies valued at £52.0million. The Board's aim remains to build a balanced portfolio across the four technology sectors that we focus on.

Further details on each of our four key sectors and a number of our leading investee companies are provided below.

Matthew Mead
Chief Investment Officer
30 June 2017

Net cash invested
£11.7million
2016: £12.6million

Net fair value gains
£4.3million
2016: £0.9million

Focusing on high growth technology sectors

2016/17 saw Mercia remain focused on sectors in which the Investment Teams have significant commercial insight and extensive personal networks.

Portfolio update

Software & the Internet

Headed by Investment Director Rob Johnson, this sector has continued to thrive with the highlight of the financial year being Mercia's exit of its holding in Allinea Software. More details of this successful cash exit are set out on page 18.

Rob Johnson
Investment Director, Software & the Internet

IT spending to reach
$3.5trillion
Predicted by Gartner

As an early indicator of what is to come to the balance sheet over the near to medium-term, during the year Mercia has made new investments through its managed funds into its key areas of focus including artificial intelligence ("AI"), cybersecurity, software as a service ("SaaS"), analytical tools and adtech.

Each of these subsectors were identified by the sector team as attractive areas to build and source businesses and represent significant market opportunities as Gartner predicts that globally IT spending will reach $3.5trillion in 2017 and that software spending will grow by 7.2% to total $357.0billion[1]. SaaS and cloud adoption in particular have become the most significant disruptors to this rapidly growing sector. These developments have had a positive impact on the UK economy and more businesses than ever are exploring opportunities in digital transformation services and connected technologies.

The UK is also firmly cementing its place in AI technologies, a market which Accenture estimates could add around £654.0billion to the UK economy by 2035[2]. Mercia is engaging with a number of companies which are developing these innovative technologies and which are in the process of establishing themselves as influential leaders in their chosen field.

For the year to 31 March 2017, Mercia made direct investments of £1.5million in this sector and at the year end had £14.2million of asset value representing 27.3% of the total portfolio value. Post year end, Mercia also invested in one new Emerging Star from its managed funds, Intechnica.

1. http://www.gartner.com/newsroom/id/3482917
2. https://www.accenture.com/gb-en/insight-artificial-intelligence-future-growth

www.sciencewarehouse.com

Location
Leeds

Science Warehouse

As at 31 March 2017, the Group held a 62.6% interest in Science Warehouse at a fair value of £9.9million. At Mercia's 30 September 2016 half year, the Group revalued its holding in Science Warehouse to £9.9million (2016: £12.7million) as a result of a review of peer group comparable company valuation multiples and an increasingly competitive marketplace. This fair value reduction represented a 25% provision against Mercia's equity value. No new investment was made during the year and the valuation as at 31 March 2017 remains unchanged.

Established in 2000 as a spinout from the University of Leeds, Science Warehouse provides a SaaS cloud-based procurement platform to what it refers to as 'buyers' who include higher education ("HE") (such as the universities of Manchester, Leeds, Bristol and Cambridge), public sector research ("PSR") (such as the Francis Crick Institute), NHS (trusts such as Wirral, Humber and Worcestershire) and a continued push into Housing, Construction and Government markets. Since the last reporting date, Science Warehouse has added new customers to its platform and continues to expand the number of product offerings from its suppliers.

This innovative platform offers a smooth and efficient cloud-based source to settlement solution to the benefit of both buyers and suppliers, with full control of the purchasing cycle enabling cost savings and drives spend management behaviour. Science Warehouse equips the buyer to obtain the best price from the range of suppliers on its platform and helps to reduce the number of employees required in the procurement process.

It offers a significant network of suppliers and an online catalogue of over 17.0million products and services optimised for e-procurement, ranging from office and scientific supplies to catering and office equipment.

Recent developments include a successful platform migration to increase scalability and availability for all customers and providing a dedicated hosting environment in Australia. Significant progress has been made in building new applications and delivering new iterations of existing applications to meet customer demands. One of the key new applications to be brought to market in mid-2017 is Supplier Information Management ("SIM"). SIM will provide a tool to buying organisations that will enable them to invite suppliers into the community and to transact business without charge, thus accelerating the supplier on-boarding process and building the supplier community.

During the year Gordon Matthew joined as chair to support the development of the company's strategic plan and offer key industry insight to help drive the business forward. He has extensive experience in software and telecommunications and has worked with a number of technology businesses supporting successful transformation projects. The business has continued to build out a broader product offering to provide customers with increased functionality across the whole procurement cycle.

Notwithstanding the fair value downward movement during the year referred to above, the company has continued to increase revenues by 9% in 2016/17, securing new contract wins in the key sectors of HE, PSR and the NHS, which has improved its overall financial performance. The company has two offices: Leeds with 55 employees and Melbourne, Australia with four employees.

Location

Brighton

www.intelligentpositioning.com

Intelligent Positioning

As at 31 March 2017, the Group held a 26.7% interest in Intelligent Positioning at a fair value of £2.5million, the investment being held at cost. The Group invested £1.5million during the year to help fund the company's growth.

Since the company's formation as a Search Engine Optimisation ("SEO") consultancy in 2004, it has pivoted, initially within Mercia's managed funds, into a business where the principal activity is the provision of an innovative, real-time search intelligence and organic analytics platform. It also provides technical support, customer education and set up services.

Intelligent Positioning collects, stores and distributes trillions of lines of search data globally and presents its own proprietary software platform, Pi Platform. Through this platform, customers can analyse their performance within global search engines such as Google or marketplaces such as Amazon, as well as gain intelligence to make data-driven decisions about their website and digital asset content.

The platform outstrips many competitors due to the large amount of data it provides (both real-time and historic) without the need to pre-select domains. The business has many high profile, blue chip customers including Harrods, Clarks, Tesco, L'Oreal, Zoopla, Superdry, Invesco, Ricoh, The Financial Times, Easyjet Holidays and SkyScanner.

All four co-founders (chairman, CEO, CMO and CTO) have decades of international blue chip brand marketing and advertising experience, with CEO Daniel Titterton leading on business strategy and product development.

In early 2017, the company was selected as one of 50 European ICT businesses to take part in an EU Gateway Trade Mission to Singapore and Thailand. Since then it has set up a partnership agreement with a digital reseller in Thailand and it has also secured and created a pipeline of multiple new business opportunities in Asia.

During 2016/17 the company also launched two new platforms; the Vault, marketed at agencies, and Pi Market Intelligence, which offers global Share of Voice and customer trend analysis. Both new platforms have already secured new business.

Mercia first invested from its balance sheet in the business in December 2015 when it moved from an investment held via its managed funds and since then the company has continued to grow on a global scale. As well as opening offices in Brighton, London, Hyderabad and New York, the company will also open a new office in Singapore this year.

Digital & Digital Entertainment

Headed by Investment Director Mike Hayes, who was previously the CEO of SEGA Games for Europe and America, Mercia has identified a number of strong investment opportunities within this sector, initially through its managed funds, which have now evolved into direct balance sheet investments.

Mike Hayes
Investment Director, Digital & Digital Entertainment

The global games market is expected to grow to an estimated $128.5billion by 2020, with the UK being a key driver of this growth[1].

UK consumers spent a record £4.3billion on games in 2016 and the UK was the sixth largest video games market in terms of consumer revenues after China, USA, Japan, South Korea and Germany. Overall, approximately 31.6million people in the UK play games[2] and we are likely to see this number continue to grow.

The UK remains a leading global developer of games content with some of the best talent and studios in the world. There have been some significant developments in this market over the past year, particularly within the areas of virtual reality ("VR"), augmented reality ("AR") and mixed reality ("MR") as well as in the serious games subsector, all of which are key focus areas for Mercia.

VR is steadily growing as more consumers are familiarising themselves with headset devices and becoming increasingly aware of the platform's potential for compelling content and experiences.

As an example of continuing games market growth, Cisco anticipates that VR headsets will grow from an installed base of 18.0million in 2016 to nearly 100.0million by 2021, a compound annual growth rate of 40%[3]. VR and AR market developments are expected to follow a similar trend.

For the year to 31 March 2017, Mercia made direct investments totalling £2.3million into this sector taking the total investment holding value at the year end to £16.4million, which represents 31.6% of the total portfolio value.

Global games market
$128.5billion
estimated by Newzoo

1. https://newzoo.com/insights/articles/the-global-games-market-will-reach-108-9-billion-in-2017-with-mobile-taking-42
2. https://ukie.org.uk/research
3. http://www.cisco.com/c/en/us/solutions/collateral/service-provider/visual-networking-index-vni/mobile-white-paper-c11-520862.html

nDreams®

Location
Farnborough

www.ndreams.com

nDreams

As at 31 March 2017, the Group held a 47.0% interest in nDreams at a fair value of £11.0million. The company received £2.8million of investment during the year of which Mercia contributed £1.5million. The investment is held at the price of the last syndicated investment round.

nDreams is a developer and specialist publisher of content for VR platforms. It creates its own games and experiences, develops for strategic third parties and acts as a VR publisher for independent studios.

Mercia first invested in nDreams in March 2014 through its managed funds. The company is now known as one of the UK's leading developers and publishers of VR content and was one of the first to enter the VR games market.

Content development has been good during 2016/17. The business launched its award-winning game, The Assembly, on Sony's PlayStation VR in October 2016, following its debut on the Oculus Rift and HTC Vive earlier in the year. nDreams also published Danger Goat, its first title for Google on Daydream, Google's new high-quality mobile VR platform, and released Perfect on both mobile and console VR.

Google is one of a number of partnerships that nDreams has secured with leading VR headset manufacturers and content providers and it also has strong relationships with Sony (PlayStation VR), Oculus/Facebook (Rift), HTC (Vive) and Samsung (Gear VR). These high profile partnerships demonstrate the industry's confidence in the design and production quality of nDreams' experiences and games.

There are an increasing number of potential partner discussions occurring which reflects the increasing interest in VR.

nDreams is recognised by many as one of the market leaders as a result of its strong management team. Vice president of development Tom Gillo has over 20 years' development experience in the industry and was formerly game director at Sony Entertainment Europe. David Corless, the vice president of publishing, previously held roles as global brand director for Sonic the Hedgehog and was head of marketing at SEGA. Paul Fitzsimons has also joined nDreams as non-executive chair and has considerable business building and fundraising experience from his career with Apax Partners. Rob Precious, the former director of business development at Geomerics/ARM, has joined the board as a non-executive director.

The company has sold over 200,000 units of VR games during the last 12 months and will be releasing several new games and experience titles by the end of 2017. It is also currently developing prototypes for AR and MR devices.

nDreams is operating within one of the most exciting and hotly anticipated sectors. Having established close relationships with some of the biggest names in the digital world, nDreams is at the forefront of the expanding VR market and has the potential to be a highly valuable business.

edgecase

Location

Guildford

www.edgecasegames.net

Edge Case Games

As at 31 March 2017, the Group held a 21.2% interest in Edge Case Games at a fair value of £2.3million. Mercia invested a further £0.5million during the year and the investment is valued at the price of the last syndicated investment round.

Edge Case Games is a developer and publisher of PC based games focused on the free-to-play, science fiction genre. PC gaming continues to be a huge market with 1.2 billion[1] players globally and estimated revenues of $29.4billion[2]. Edge Case Games' first offering is called Fractured Space, which launched via Steam Early Access in November 2014 and was fully launched on Steam's PC delivery platform in September 2016. It has so far generated over $2.0million of revenue since the beta launch and its key metrics measured during the full launch weekend matched those of global market leaders in the free-to-play PC games market. The game is attracting third party publishing interest.

Formed in 2014 by industry veterans James Brooksby and Chris Mehers through an investment from Mercia's managed funds, the pair's previous title, the action space game Strike Suit Zero, launched in January 2013 and attracted an audience of over 1.4million players on PC and console. CEO James has almost 20 years of industry experience and has had significant involvement in running and guiding games development studios, while Chris brings a solid background of senior commercial management to the company as COO.

The company is supported by a strong board of directors, chaired by serial entrepreneur Grahame Sewell. The board also includes founding shareholder Cedric Littardi, industry free-to-play veteran Thomas Bidaux, Mike Hayes from Mercia and a representative from Chinese investor Seasun Games Corporation.

Fractured Space has the potential to become a significant franchise in the free-to-play market with the right publishing and marketing support. The company is close to realising this opportunity and has also started developing a second title. Edge Case Games is a great example of the value in investing in smart, original creative content within the free-to-play PC games market.

1. https://mygaming.co.za/news/features/89913-there-are-1-8-billion-gamers-in-the-world-and-pc-gaming-dominates-the-market.html
2. https://newzoo.com/insights/articles/the-global-games-market-will-reach-108-9-billion-in-2017-with-mobile-taking-42/

Electronics, Materials & Manufacturing/Engineering

This sector is led by Investment Director Mark Volanthen, and is focused on identifying and supporting the next generation of disruptive proprietary technologies in energy and communications together with high value electronics and manufacturing applications.

Dr Mark Volanthen
Investment Director, Electronics, Materials & Manufacturing/Engineering

Consumer electronics
€9.8billion
according to Statista

The portfolio has continued to progress product development and commercial engagement, including in some cases with global brands.

In many instances Mercia's target sectors are undergoing rapid change in response to fundamental technological and economic drivers, which provide an ideal backdrop for differentiated, innovative solutions to build value.

There have been a number of industry-leading product developments across this portfolio in the past year, including sureCore's ultra-low power six-transistor static memory cell ("SRAM"), Warwick Audio Technologies' portable electrostatic wired headphone system and LM Technologies' launch of the world's first dual mode Bluetooth 4.1 serial adapter.

Manufacturing contributes £6.7trillion to the global economy and the UK is currently the world's ninth largest industrial nation[1].

In 2016, the market value for consumer electronics in the UK reached around €9.8billion. This shows that the electronics market has been growing over the past four years, with an increase of over €1.5billion[2].

For the year to 31 March 2017, Mercia invested £4.8million in this sector with new Emerging Stars, sureCore and Faradion, both outlined below, receiving direct investment. As at 31 March 2017 the Group had a total of £11.4million of asset value in this sector representing 21.9% of the total portfolio value.

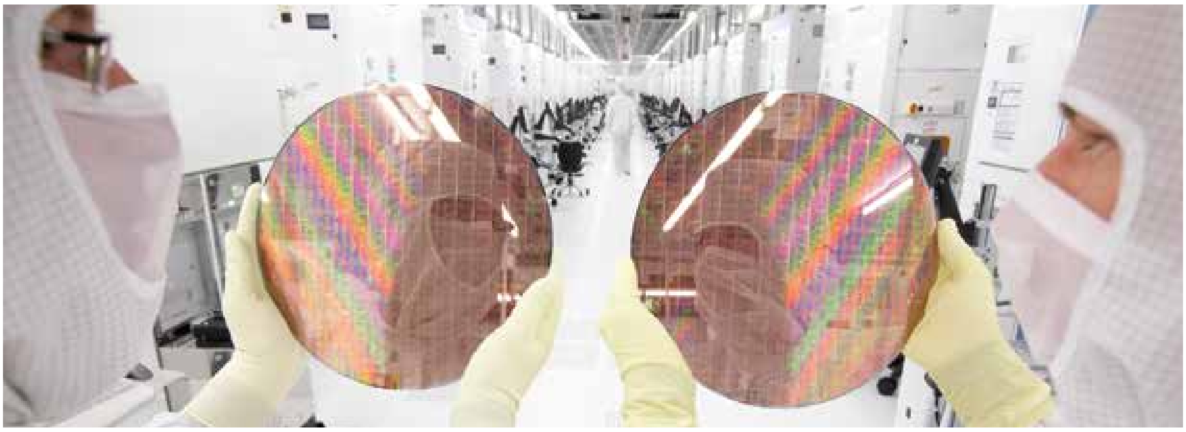
1. http://www.themanufacturer.com/uk-manufacturing-statistics/
2. https://www.statista.com/statistics/491307/consumer-electronics-united-kingdom-uk-market-value/

surecore

Location

Sheffield

www.sure-core.com



sureCore

As at 31 March 2017, the Group held a 23.0% interest in sureCore at a fair value of £1.5million. Mercia invested £1.5million during the year and the investment is held at cost.

sureCore, a provider of low power memory solutions for semiconductor applications, is based in Sheffield. It has developed a low power memory portfolio with world beating low voltage operation and is successfully exploiting growing market demand for more on-chip memory and lower power consumption in leading edge devices, such as those serving the Internet of Things ("IoT"), wearables and networking spaces.

Founded in 2011 and led by a team of industry experts each with over 30 years of experience, sureCore joined the direct investment portfolio in June 2016 having been sourced from the Group's managed funds portfolio and having received £2.5million of third party funding prior to Mercia Technologies' first direct investment.

CEO and co-founder of sureCore Paul Wells has worked in the semiconductor industry for over 30 years including as director of engineering for Pace Networks where he led a multidisciplinary, 70-strong, product development team. Chairman Guillaume d'Eyssautier also has a career spanning over 30 years in the semiconductor industry including management positions in Europe and USA.

Memory designs developed by sureCore have shown in excess of 50% saving in dynamic power consumption and up to 20% reduction in static power, compared to industry standard solutions. Its ultra-low voltage memory is a world first, demonstrating operation at unprecedented low levels. This technology is applicable to wide ranging high worth application markets such as consumer electronics. The product is silicon-proven in leading edge manufacturing technologies and is being evaluated by a number of potential commercial partners.

Location
Sheffield

www.faradion.co.uk

Faradion

As at 31 March 2017, the Group held a 13.6% interest in Faradion at a fair value of £1.3million. The investment is held at cost. The company received £3.0million of investment during the year in a syndicated round.

Faradion, also based in Sheffield, is a leading developer of low cost sodium-ion battery technology and joined the direct investment portfolio in January 2017 from the Group's managed funds. The business had previously raised circa £3.8million from a number of investors including trade investor Haldor Topsoe.

This new technology is underpinned by 18 patent families and promises performance comparable to lithium-ion batteries but at least 30% cheaper for the cost of materials, offers a higher level of safety and is less susceptible to rare metal price movements. The sodium salts used to prepare these battery materials are highly abundant, coming from more sustainable sources than those of equivalent lithium salts, making them both cheaper and more easily obtainable.

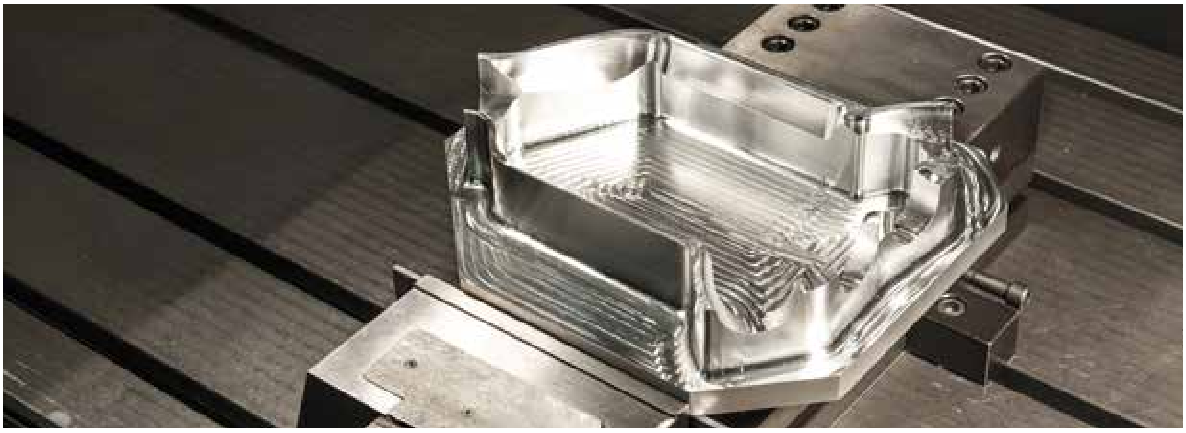
The technology is suitable for a wide range of applications such as industrial and residential storage, providing power for telecoms base stations and in-bus transportation.

Faradion was co-founded in 2010 by CTO Dr Jerry Barker, a world renowned battery scientist who has previously set up and managed battery research facilities in both USA and the UK. Co-founder Dr Chris Wright is chair and a highly experienced entrepreneur who was formerly group operations director of AEA Technology PLC. CEO Francis Massin has over 20 years' experience in scientific, industrial and business development at Dow Corning in Europe, USA and Asia.

The company is now working with potential customers and partners in Europe and China to demonstrate the scalability of the technology, gain early commercial traction and validate its supply chain.

Location
Coventry

www.impression-technologies.com



Impression Technologies

As at 31 March 2017, the Group held an 18.2% interest in Impression Technologies at a fair value of £1.5million and the investment is held at cost. Post year end the Group has invested a further £1.5million as part of a £3.0milllion syndicated investment round to fund the company's exciting growth prospects.

Located in Coventry and based on intellectual property developed at the University of Birmingham and Imperial College London, Impression Technologies has a proprietary Hot Form Quench ("HFQ®") technology for developing complex, high strength, lightweight components for the transportation industry.

The HFQ® technology is a new and disruptive hot forming process, in which complex aluminium parts are pressed and quenched within a matched die tool. HFQ® technology enables the replacement of steel with aluminium in critical applications, including those where complex geometries would not otherwise be formable in high strength aluminium grades. Parts produced using HFQ® are already receiving industry recognition, with Aston Martin using HFQ® parts for its DB11 model.

The business is making positive progress in bringing its technology to market following the opening of the world's first HFQ® facility in October 2016, which is located on the former site of the Jaguar factory in Lyons Park, Coventry.

Mercia made its first investment in Impression Technologies in July 2015, following initial funding from Mercia's managed funds.

The business is led by CEO Jonathan Watkins who has over 25 years of experience in commercialising technology in the international automotive, industrial and clean technology sectors, having held senior commercial and operational leadership positions in Federal-Mogul, Textron, and most recently, Ceres Power. Jonathan is supported by a strong board, chaired by Ian Jenks and including Professor Jianguo Lin of Imperial College.

The company is already supplying global brands including Aston Martin and Lotus Cars and is now in discussions with a number of other leading automotive brands, tier one suppliers, press manufacturers and aluminium suppliers to further scale the business.

Life Sciences & Biosciences

This sector is headed by Investment Director Peter Dines and its key areas of focus are diagnostics, digital health and medical devices.

Medtech sales in 2020

$513.5billion

predicted by Deloitte

Life Sciences & Biosciences continue to be an attractive area in which to invest with two new direct investments during the year; Concepta, a women's health diagnostics company with an initial focus on unexplained infertility, and Medherant, an IP-rich University of Warwick spinout developing novel transdermal drug delivery patches. There have also been a number of new life sciences investments made through Mercia's third party managed funds.

The cost of global health care is predicted to reach $8.7trillion by 2020 from $7.0trillion in 2015, driven by improving treatments in therapeutic areas coupled with rising labour costs and increased life expectancy[1].

The UK continues to be an active life science hub with a high level of new innovations. The life sciences industry employs almost 235,000 people across the UK and generates a combined estimated turnover of £64.0billion. Since 2011 the UK has secured over £7.5billion of inward investment in the sector[2].

Deloitte expects medical technology industry sales to increase from $363.8billion in 2013 to $513.5billion in 2020 and predicts that in vitro diagnostics will be the leading segment[3].

For the year to 31 March 2017, Mercia invested £3.1million in this sector with new Emerging Stars, Concepta and Medherant, receiving direct investment. As at 31 March 2017 the Group had a total of £10.0million of asset value in this sector representing 19.2% of the total portfolio value.

1. https://www2.deloitte.com/global/en/pages/life-sciences-and-healthcare/articles/global-life-sciences-sector-outlook.html
2. https://www.gov.uk/government/publications/bioscience-and-health-technology-database-annual-report-2016
3. https://www2.deloitte.com/uk/en/pages/life-sciences-and-healthcare/articles/healthcare-and-life-sciences-predictions-2020.html

Concepta

Location
Doncaster

www.conceptaplc.com

Concepta

As at 31 March 2017, the Group held an 18.2% interest in Concepta at a fair value of £3.4million. £1.4million was invested in the business during the year and the investment is held at its closing bid price.

Concepta is a women's health diagnostics company with an initial focus on developing a product to help women with unexplained infertility to conceive. The company has designed and developed a proprietary platform, myLotus, for at-home and point-of-care testing.

The myLotus product allows both quantitative and qualitative measurement of a woman's hormone levels to help increase conception probability. The ability to see quantitative as well as qualitative results, and the link with a mobile app, make it unique within the rapidly growing mobile health market.

CEO Erik Henau has over 35 years' experience in life sciences and consumer diagnostics companies, and has previously managed international distribution networks in a variety of healthcare fields. Adam Reynolds joined as chair in February 2016 and is a former stockbroker with over 35 years' experience within the UK financial services sector.

Neil Mesher was appointed non-executive director in March 2017 and has more than 25 years of global experience within the healthcare and consumer electronics industries. He is currently CEO of Philips for the UK and Ireland and is also a member of the government's Life Sciences Industrial Strategy Board, representing the interests of the medical technology sector with other senior leaders from across healthcare.

Concepta has doubled the size of its laboratory's operations to increase research and development capacity. It has also signed a 10 year lease for a new manufacturing facility in Doncaster, Yorkshire.

In July 2016, Concepta was admitted to AIM via a reverse takeover of Frontier Resources International. Since admission Concepta's market capitalisation has risen and the company has continued to progress commercial partnerships. In September 2016 Concepta signed a manufacturing agreement with leading Chinese manufacturer Shijiazhuang Huanzhong Biotech Limited ("HZ Biotech") and is also making significant progress in preparing the myLotus fertility product for commercial launch in China and Europe.

Post year end, Concepta has signed its first distributor agreement with Beijing ThinkBrio Medical Technology Consulting Co. Limited. The agreement covers an initial three year period and relates exclusively to the distribution of the myLotus range of products within LiaoNing province in China. If successful, Concepta intends to cover further Chinese territories.

The company also announced that it received its first sales order for RMB 1.95million (£225,000 at 14 June exchange rate of RMB 8.33: £1) for its myLotus fertility products from its partner in China, HZ Biotech.

OXFORD GENETICS

Location

Oxford

www.oxfordgenetics.com

Oxford Genetics

As at 31 March 2017, the Group held a 47.9% interest in Oxford Genetics at a fair value of £2.2million. The company received £1.0million of investment during the year and the investment is held at cost.

Oxford Genetics is a specialist designer and developer of biological molecules such as proteins, viruses and cells. It provides design, development and production services for biological therapeutics based on these types of molecules.

The company has four main technology areas focusing on improving the discovery, design, development and deployment of biological molecules. These technology areas are supported by the company's patent-protected SnapFast DNA engineering technology, which makes genetic engineering more efficient.

Mercia first invested in Oxford Genetics through its managed funds. In 2015 Mercia Technologies invested £150,000 plus a further £2.0million in 2016 to build Mercia's direct equity position and help further scale the business.

CEO and co-founder Dr Ryan Cawood is an experienced genetic engineer with extensive knowledge and practical insight working with mammalian virus and cellular recombinant expression systems. His co-founder professor Leonard Seymour is a professor at the Department of Oncology, University of Oxford (and previously was at the University of Birmingham) and has 25 years' experience in genetic engineering. Leonard is also the co-founder of PsiOxus Therapeutics and The Native Antigen Company, in which Mercia also invested from both its managed funds and balance sheet (and is a shareholder alongside the University of Birmingham).

The team has been building a best-in-class synthetic-biology based tool set, supplemented by online sales of its DNA designs and plasmid development services, towards a model of technology licensing and high value-add service provision. Oxford Genetics has significantly grown its IP portfolio estate and now has six patent families. The company has also secured £1.9million of grant funding to accelerate growth in the bioproduction and complex antibody discovery system product lines.

Oxford Genetics benefits from exceptional talent at all levels in the organisation and with continuing growth has recently expanded into new premises. The company intends to grow its research and development team further to meet market demand, escalate its end-to-end system by capturing greater value downstream and establish an office in USA to increase its market reach. Revenues have grown by 100% year on year for the last three years as the business continues to accelerate its commercial progress, in what is a very attractive sector.

MEDHERANT®

www.medherant.co.uk

Location

Coventry

Medherant

As at 31 March 2017, the Group held an 11.3% interest in Medherant at a fair value of £0.7million and the investment is held at cost. The company raised £1.5million during the year in a syndicated investment round.

Medherant is a University of Warwick spinout developing an innovative patch technology for the delivery of a variety of drugs. Medherant's patch, known as the TEPI-patch, is a thin, strong, easy to apply and easy to remove patch capable of delivering higher doses of drugs directly to the areas where they are needed. The therapy is delivered by the patch over a period of 24 hours or more, depending on the patient's requirements and the drug being administered.

The technology, which is initially being developed for Ibuprofen and Lidocaine (used in topical pain relief), is capable of working with a wide range of products, including drugs that have failed clinical trials because of their unsuitability for oral consumption. The patches are easy to manufacture because, unlike other patch technologies, this does not involve the use of solvents. They can also use less material, so this technology also has the potential to relieve huge cost burdens from healthcare systems.

Since Mercia's first investment through its managed funds, the company has secured an exclusive deal with Bostik SA, a leading adhesive specialist, to use a novel pressure sensitive adhesive material in the development of the patch. Following this significant commercial development, Mercia made a direct investment from its balance sheet. As a reflection of Medherant's continued growth, it has moved to new laboratories and has validated that its technology works successfully on drugs that were previously unsuitable for transdermal delivery.

In keeping with Mercia's desire to build leading teams in its portfolio of companies, Medherant has made some significant appointments over the last year, including Ken Cunningham as non-executive chair (medically qualified, ex-CEO of Skypharma plc, and sits on the boards of Abzena plc and Verona plc) and Sally Waterman as COO (extensive experience gained from Abzena plc, Protherics plc and Xenova plc).

The company has identified the final formulation of its Ibuprofen patch and the product has entered pre-clinical development. Using known chemical entities such as Ibuprofen, the company expects relative rapid progress through clinical trials and into market with this very versatile technology and innovative product strategy.

Increasing net assets

In the year to 31 March 2017 Mercia Technologies PLC has made further positive progress in executing against each of its shareholder value creation objectives, including its first cash realisations.

"Mercia has a strong financial platform from which to drive growth in net asset value"

Martin Glanfield
Chief Financial Officer

Net assets
£121.4million
2016: £80.0million

Cash
£63.8million
2016: £30.9million

Having successfully built the Mercia Model during its first two years on AIM, the Group's key objective now is to focus on investing its substantial balance sheet capital into new and existing, predominantly regionally sourced, direct investments via its significantly expanded deal-flow pipeline of managed funds' investments.

Mercia's results for the year to 31 March 2017 reflect good progress in all of its key business objectives.

During the year the Group invested £11.7million (2016: £12.6million) into 11 existing (2016: 10) and four new (2016: six) direct investments. Cash proceeds from the Group's first investment realisations totalled £2.9million (2016: £nil). As at 31 March 2017 the fair value of the Group's direct investment portfolio was £52.0million (2016: £38.1million). Net fair value gains during the year totalled £4.3million (2016: £0.9million). Total net assets at the year end were £121.4million (2016: £80.0million), including cash and short-term liquidity investments totalling £63.8million (2016: £30.9million). Net assets per share increased 7.7% to 40.4 pence (2016: 37.5 pence). The net fair value gains referred to above contributed positively to a consolidated profit and total comprehensive income for the year of £1.0million (2016: £1.7million loss). Given the early-stage nature of the majority of the Group's direct investment portfolio and the relatively short length of time in which the Group's cash has been invested, these results are very encouraging.

Placing of 86,956,521 shares raising £40.0million gross proceeds ('Placing')

On 31 January 2017 Mercia announced a conditional placing of, in aggregate, 86,956,521 Placing shares at 46.0 pence per Placing share. The Placing price represented a discount of approximately 8.9% to the closing mid-market price of 50.5 pence per Ordinary Share on 30 January 2017 (being the last practical date prior to the announcement of the Placing).

The primary purpose of the Placing was to accelerate the development of the Group's existing portfolio companies and to capture the opportunity to invest in new direct investment opportunities across its target sectors nationally and specifically within the UK regions. The number of investment opportunities has been significantly enhanced through the acquisition of Enterprise Ventures in March 2016 and the Group's newly replenished investment capital will be almost entirely deployed into the growing direct investment portfolio.

Acquisition of Enterprise Ventures

On 9 March 2016 Mercia Technologies acquired Enterprise Ventures' entire issued share capital for up to £11.0million and an amount equal to Enterprise Ventures' net cash position at completion which was £2.0million. The initial consideration was £9.0million, comprising £8.3million satisfied in cash on completion (which was funded from the Group's existing cash resources) and £0.7million satisfied by the issue of 1,645,711 initial consideration shares at a price of 42.0 pence (being the average of the daily closing mid-market price for an Ordinary share of Mercia for the five trading days immediately preceding completion).

Deferred consideration of up to £2.0million will also be payable, contingent upon Enterprise Ventures securing at least £80.0million of net new third party fund mandates during the two year period post completion. Payment of the deferred consideration is also conditional upon each of the vendors of Enterprises Ventures still being employed by the company on the second anniversary of completion. To the extent payable, the deferred consideration will be satisfied by the issue of additional Mercia Ordinary shares, at a price which will be determined by the average of the daily closing mid-market price for an Ordinary share for the five trading days immediately following the end of the two year deferred consideration period.

As at 31 March 2017 over £80.0million of net new fund mandates have been secured and all bar one of the vendors have remained within the enlarged Group. As the deferred consideration period is approximately 50% complete, half of the anticipated deferred consideration payable, being £1.1million (including potential employer's National Insurance), has been accounted for in these consolidated financial statements.

Goodwill and acquired intangible assets

The year end consolidated balance sheet includes goodwill of £10.3million (2016: £10.3million) and acquired intangible assets of £1.2million (2016: £1.5million). £7.9million (2016: £7.9million) of the goodwill and all of the intangible assets' value arose as a result of the Group's acquisition of Enterprise Ventures. The intangible assets are separately identifiable assets arising from Enterprise Ventures' fund management contracts with third party limited partners and other similar investors. The fair value of the intangible assets is being amortised on a straight-line basis over the average duration of the remaining fund management contracts. The amortisation charge of £301,000 (2016: £17,000) in the consolidated statement of comprehensive income represents the amortisation of the intangible assets for the year to 31 March 2017.

Summarised consolidated statement of comprehensive income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Revenue	**6,660**	1,755
Cost of sales	**(92)**	(79)
Fair value movements in investments	**4,268**	896
Realised gains on disposal of investments	**839**	–
Share-based payments charge	**(395)**	(230)
Amortisation of intangible assets	**(301)**	(17)
Administrative expenses	**(9,051)**	(4,011)
Exceptional items	**(1,125)**	(372)
Finance income	**186**	361
Taxation	**54**	–
Profit/(loss) and total comprehensive income/(loss) for the financial year	**1,043**	(1,697)
Basic and diluted earnings/(loss) per Ordinary share (pence)	**0.47**	(0.80)

Revenue and cost of sales

Total revenues of £6,660,000 (2016: £1,755,000) comprise fund management fees, initial management fees from new investments, investment director monitoring fees and sundry business services income. The substantial increase in revenue has largely arisen as a result of the full year effect of the acquisition of Enterprise Ventures. Cost of sales represents third party fees incurred for administering the funds under management by Mercia Fund Management ("MFM").

Fair value movements in investments

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Investment movements excluding cash invested:		
Unrealised gains on the revaluation of investments	**8,800**	1,582
Unrealised losses on the revaluation of investments	**(4,532)**	(686)
Net fair value gain	**4,268**	896

For the year as a whole, unrealised fair value gains arose in seven (2016: five) of the Group's 24 (2016: 22) direct investments. The largest fair value gain was nDreams which accounted for £4,758,000 of the total. There were six (2016: four) fair value impairments, the largest being £2,737,000 for Science Warehouse.

Gains on disposal of investments

During the year, realised gains of £839,000 (2016: £nil) arose on the disposal of two (2016: nil) of the Group's direct investments, being Allinea Software and Abzena.

Share-based payments charge

The £395,000 (2016: £230,000) non-cash charge arises from the issue of share options to Executive Directors and other employees of the Group ranging from the date of the IPO to 31 March 2017.

Amortisation of intangible assets

The amortisation charge of £301,000 (2016: £17,000) represents the amortisation of the acquired intangible assets of Enterprise Ventures for the year ended 31 March 2017.

Administrative expenses

Total administrative expenses of £9,051,000 (2016: £4,011,000) consisted predominantly of staff related costs. Administrative expenses as a whole have grown largely as a result of the full year effect of the acquisition of Enterprise Ventures.

Exceptional items

As referred to in the note on page 43 and note 8 of the consolidated financial statements, deferred consideration of £1,125,000 in respect of the acquisition of Enterprise Ventures has been accounted for in the consolidated statement of comprehensive income as an exceptional item. The prior year exceptional charge of £372,000 represents costs incurred in relation to the acquisition of Enterprise Ventures.

Finance income

Finance income of £186,000 (2016: £361,000) was predominantly interest receivable earned on the Group's cash and short-term liquidity investments.

Taxation

The tax credit of £54,000 (2016: £nil) represents the unwinding of the deferred tax liability recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

Balance sheet and cash flows

Net assets at the year end of £121,354,000 (2016: £80,041,000) were predominantly made up of the Group's direct investment portfolio, together with cash and short-term liquidity investments. The Group has limited working capital needs due to the nature of its business.

Direct investment portfolio

During the year Mercia's direct investment portfolio grew to £52,028,000 (2016: £38,143,000). The table below lists the Group's investments by value as at 31 March 2017, including a breakdown of the net cash invested during the year, investment realisations, fair value movements at the year end and the equity percentage of each company owned.

Investment	Net investment value As at 1 April 2016 £'000	Net cash invested Year to 31 March 2017 £'000	Investment realisations Year to 31 March 2017 £'000	Fair value movements Year to 31 March 2017 £'000	Net investment value As at 31 March 2017 £'000	Percentage held As at 31 March 2017 %
nDreams Ltd	4,721	1,500	–	4,758	10,979	47.0
Science Warehouse Ltd	12,650	–	–	(2,737)	9,913	62.6
Concepta PLC	–	1,400	–	2,000	3,400	18.2
Warwick Audio Technologies Ltd	1,348	1,351	–	92	2,791	63.6
Ton UK Ltd t/a Intelligent Positioning	1,000	1,500	–	–	2,500	26.7
PsiOxus Therapeutics Ltd	1,137	–	–	1,240	2,377	1.5
Edge Case Games Ltd	1,810	500	–	–	2,310	21.2
Smart Antenna Technologies Ltd	1,827	250	–	182	2,259	28.2
Oxford Genetics Ltd	1,150	1,046	–	–	2,196	47.9
LM Technologies Ltd	1,392	378	–	–	1,770	41.5
Soccer Manager Ltd	1,599	–	–	–	1,599	29.9
VirtTrade Ltd	2,575	250	–	(1,287)	1,538	28.4
Impression Technologies Ltd	1,500	–	–	–	1,500	18.2
Crowd Reactive Ltd	1,500	–	–	–	1,500	28.3
sureCore Ltd	–	1,500	–	–	1,500	23.0
Faradion Ltd	–	1,299	–	–	1,299	13.6
The Native Antigen Company Ltd	646	–	–	495	1,141	35.6
Medherant Ltd	–	650	–	–	650	11.3
Allinea Software Ltd	1,916	–	(1,916)	–	–	–
Other direct investments	1,372	64	(155)	(475)	806	n/a
Totals	**38,143**	**11,688**	**(2,071)**	**4,268**	**52,028**	**n/a**

Direct investment realisations

Mercia is focused on creating shareholder value through the investment in, development of and at the appropriate time, exit from (predominantly through trade sales) its direct investments. Although the Group's direct investment portfolio is still at a relatively early-stage, two successful cash realisations were completed during the year under review. In December 2016 Mercia Technologies sold its 16.6% stake in Allinea Software Limited ('Allinea') for an initial cash consideration of £2,570,000 (net of transaction costs). Following agreement of Allinea's closing working capital position, additional cash consideration of £171,000 was received in March 2017. Further cash consideration of £300,000 is expected to be received once a customary 18 month warranty lock-in period has expired. The total cash consideration received to date of £2,741,000 represents a 43.1% uplift against the £1,916,000 holding value of Mercia's direct investment in Allinea at the date of disposal and an 88.4% uplift compared with Mercia Technologies' total investment cost.

In February 2017 Mercia Technologies also disposed of its small remaining direct investment in AIM listed Abzena plc ('Abzena'). The total cash consideration received was £168,000 (net of transaction costs) and represented a 9.1% uplift against the £154,000 holding value of Mercia's direct investment in Abzena at the date of disposal.

Although neither of these cash realisations are for substantial amounts compared with the total value of the direct investment portfolio, they do nevertheless demonstrate the commercial attractiveness and realisable potential of the portfolio despite its early-stage nature, as well as the Group's determination to not just create incremental shareholder value, but also to realise it in cash.

Cash and short-term liquidity investments

At the year end, Mercia had total cash and short-term liquidity investments of £63,829,000 (2016: £30,932,000) comprising cash of £28,829,000 (2016: £20,932,000) and short-term liquidity investments of £35,000,000 (2016: £10,000,000). The overriding emphasis of the Group's treasury policy remains the preservation of its shareholders' cash for investment and working capital purposes, not yield. At the year end the Group's cash and short-term liquidity investments (which is cash on deposit with maturities between three and six months) were spread across five leading United Kingdom banks.

The summarised movement in the Group's cash position during the year is shown below.

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Opening cash and short-term liquidity investments	**30,932**	53,633
Net cash generated from/(used in) operating activities	**3,681**	(2,024)
Net cash used in investing activities (including capital expenditure and interest received)	**(9,534)**	(12,346)
Purchase of subsidiary undertaking net of cash acquired	**–**	(8,309)
Issued share capital	**40,000**	–
Share issue costs charged to share premium account	**(1,250)**	(22)
Cash and short-term liquidity investments at the year end	**63,829**	30,932

The encouraging progress of the existing direct investment portfolio coupled with the Group's recent, significantly enhanced available cash resources, provide Mercia Technologies with a strong financial platform from which to drive growth in net asset value in the years ahead, free from any near-term fundraising distractions.

Martin Glanfield
Chief Financial Officer
30 June 2017

Risk management

Principal risks and uncertainties

The Board considers that the risks detailed below represent the key potential obstacles to achieving the Group's strategic objectives. The key controls over the Group's principal risks are documented in Mercia's risk register which includes an assessment of the risk impact, likelihood of occurrence, the severity of impact and mitigation actions.

The Board reviews, evaluates and prioritises risks to ensure that appropriate measures are in place to effectively manage and mitigate those identified.

There could be additional risks and uncertainties which are not known to the Board and there are risks and uncertainties which are currently deemed to be less material, which may also adversely impact performance. The Group's risk management framework can only provide reasonable, not absolute, assurance that principal risks are managed to an acceptable level, whilst also acknowledging the fact that the venture capital sector in which Mercia operates has investment risk inherent within it. Mercia's risk framework is therefore constructed so as to identify and navigate the inherent downside risks, whilst seeking to exploit upside risk.

During the year Mercia has continued to build on its risk management framework with a particular focus on cybersecurity and to this end, has recently engaged external cybersecurity consultants to carry out a full review of the Group's systems, controls and processes.

Identify

Evaluate

Mitigate

Risk	Possible consequences	Mitigation
The majority of the direct investment portfolio are businesses at a relatively early-stage in their development and as a result carry inherent risks. The technology sector in which these companies operate has technical and commercial risks inherent in it. Typically such companies are developing new or disrupting existing technologies and breaking new ground commercially.	Early-stage technology companies may not be able to attract and retain appropriately skilled and experienced staff; they may not be able to attract sufficient funding to achieve their commercial objectives; their technology niche may be overtaken by competing technologies or may not achieve commercial traction, however attractive the opportunity might appear; take up of their product or service offering in their chosen markets may not occur at levels sufficient to generate positive cash flow and create shareholder value. The length of time taken for these companies to arrive at success or failure may be protracted, placing them under severe pressure to maintain the financial support required over a sustained period of time.	Almost all of the Group's direct investments thus far are companies which have emerged from the funds under management by the Group's wholly owned subsidiaries, Mercia Fund Management Limited ("MFM") and Enterprise Ventures Group Limited. Both have a fail fast policy, which means that early-stage businesses which do not achieve commercial traction within a reasonable time frame are closed down. Portfolio businesses which do achieve commercial milestones and meet the Group's other investment criteria receive direct investment. This process has two mitigating advantages. Firstly, companies which do not achieve commercial traction, or do not have a sufficiently experienced and capable management team, do not receive direct Group investment. Secondly, the 'real-time' due diligence being undertaken by the Group's Investment Teams during the investee company's early-stage of development means that Mercia is already familiar with the business, its commercial prospects and its management team before it is presented to the Group's Board (which acts as Mercia's investment committee) with a recommendation for direct investment.
The value of the Group's direct investment portfolio may be dominated by a single or limited number of companies.	A large proportion of the overall value of the direct investment portfolio may at any time be accounted for by one or very few companies. There is a risk that one or more of the portfolio businesses will experience financial difficulties, become insolvent or suffer from poor market conditions and if, as a result, their value were to be adversely affected, this would have a material detrimental effect on the overall value of the Group's investment portfolio.	The Group currently directly invests across four sectors and over time will seek to balance the total portfolio by quantum and value by sector, as the total number of direct investments and their values grow. Good progress in balancing the portfolio has been made during the year. However, it is the Group's expectation that from time to time, depending on the speed of development of portfolio companies and the attractiveness of certain technology sectors, there may be investments that dominate the total portfolio by value.
Proceeds from the trade sale or IPO of direct investments may vary substantially from year to year.	Such large possible cash flow variations could have a materially adverse effect on the financial condition and prospects of the Group.	The Group maintains sufficient cash resources to manage its day-to-day and investing activities, irrespective of fluctuations in the timing of investment realisations.
The Group's direct investments may not have exclusive rights on all matters in relation to the intellectual property being exploited by the business and could ultimately lose their usage rights under certain circumstances.	A proportion of the direct investment portfolio companies' intellectual property rights relate to technology which was originated in the course of research conducted in, and initially funded by, UK universities. Although the Group maintains collaborative relationships with all of its university partners, it cannot be certain that all such portfolio companies will be able to make use of the intellectual property indefinitely.	Approximately 62% of the direct investment portfolio comprises companies which are not university spinouts. Where appropriate, the Group's portfolio companies engage intellectual property protection specialists. Intellectual property due diligence is one of the reviews which the Group undertakes as part of its pre-investment appraisal process and the Group works collaboratively with its university partners to maximise the commercial potential of university derived intellectual property.

Risk	Possible consequences	Mitigation
The Group and its portfolio companies are subject to competition risk.	The Group operates a direct investment model which is similar in some respects to other investing groups and, as a result, may find itself in competition when new investment opportunities arise. In addition, the direct investment portfolio businesses are predominantly focused on the technology sector. The technology sector is intensely competitive on a global scale. Many of the portfolio businesses' competitors have greater financial, technical and other resources. Competition in the technology sector could materially adversely affect the prospects, financial condition and results of operations of direct investment portfolio companies.	The Group focuses its investing activities predominantly on the historically underserved regions of the United Kingdom, where competition for investing in new technology companies is less fierce. Companies in which the Group invests are chosen because they are in large growth markets, have developed disruptive technologies and have already achieved commercial traction.
The Group may not be able to continue to retain or attract experienced, skilled and successful Board Directors, Investment Directors and support staff.	The Group depends on the experience, skill and judgement of key staff in, amongst other things, selecting possible future successful businesses in which to invest. The Group also depends on its network of deal flow introducers to the MFM, Enterprise Ventures ("EV") and Enterprise Ventures Business Loans ("EVBL") funds. The Group's future success depends in part on the continued service of these individuals as well as the Group's ability to recruit, retain and motivate additional talented personnel.	The Group seeks to reduce this risk by maintaining an entrepreneurial working environment and by offering balanced and competitive remuneration packages to all its staff. The Remuneration Committee monitors the remuneration and incentive structures of all senior staff across the Group, in conjunction with seeking advice, when appropriate, from specialist remuneration consultants.
MFM, EV or EVBL may cease to be authorised by the Financial Conduct Authority ("FCA").	MFM, EV and EVBL are each authorised and regulated by the FCA as small authorised UK Alternative Investment Fund Managers ("AIFM") (Sub-threshold). Should any of MFM, EV or EVBL cease to be authorised and regulated by the FCA as a small authorised UK AIFM (Sub-threshold), it would no longer be authorised to act as the investment manager of the respective MFM, EV or EVBL funds or, in the case of MFM, as the UK AIFM to Mercia Technologies. If that was to occur, Mercia would: (i) lose one or more of its revenue streams; (ii) be required to appoint a replacement UK AIFM; and (iii) in the case of MFM and EV, lose one or more of the principal sources of potential direct investments for the Group.	The Group mitigates this risk by ensuring that MFM, EV and EVBL act at all times with integrity, honesty, skill, diligence and fairly in conducting their investing business activities. The Group regularly reviews the financial positions of MFM, EV and EVBL to ensure that adequate financial resources are maintained in accordance with FCA rules. The Group also ensures that each of MFM, EV and EVBL employs the resources and procedures that are necessary for the proper performance of their business activities and comply with all regulatory requirements applicable to the conduct of their business, so as to promote the best interests of the funds under management and fund investors. The Group ensures that each of MFM, EV and EVBL communicate information to fund investors in a way which is fair, clear and not misleading. MFM, EV and EVBL communicate with the FCA in an open and co-operative way to provide regular reporting, notifications and disclosures. The Group has recently appointed a compliance director to further strengthen Mercia's expertise in this important area of the Group's operations.
The UK's future exit from the European Union may impact upon both the Group and its portfolio companies.	Future European trade barriers or border controls may impact portfolio company growth prospects. Additional equity capital may be more difficult to raise.	Technology is a sector that works without national barriers and will only increase in importance. Many of the Group's direct investments have a global target customer base. The Group focuses on technology sectors which do not have large capital needs. The Group therefore has sufficient funds under management and balance sheet cash to exercise investment and operational flexibility.

Risk	Possible consequences	Mitigation
Breaches of the Group's digital security, through cyber attacks or a failure of the Group's digital infrastructure, could result in the loss of commercially sensitive data and/or create substantial business disruption.	Such security or infrastructure failures may result in the loss of data, misuse of sensitive information, reputational damage and legal or regulatory breaches.	The Group reviews its infrastructure and cybersecurity processes with its outsourced IT provider on a regular basis and continues to invest in resources to enhance its cyber defences and improve network monitoring to mitigate the impact of a security breach. Critical business continuity plans and disaster recovery contingencies are in place and have been tested. The Group has engaged external cybersecurity consultants to undertake a detailed review of the Group's infrastructure and processes in June 2017.
A proportion of the early-stage deal flow for Mercia derives from, and is financed via, the MFM funds which include capital raised from sophisticated investors seeking, inter alia, tax relief. Any changes in legislation around SEIS and EIS relief could impact on the ability of Mercia to raise adequate funds.	Although the Directors do not believe that such investors choose MFM solely for the tax relief available, such reliefs are an element of their decision making and if those reliefs were to be withdrawn this could result in the size of the MFM funds being reduced or make it difficult for Mercia to successfully launch one or more similar funds.	Changes in tax legislation would affect the whole industry, so Mercia would not be at a competitive disadvantage. Investors would make their decisions solely on companies' track records, executive and investment team members' reputations and performance. In its relatively short time in the industry, Mercia has established a strong reputation with a proven track record of delivering value to fund investors and would therefore be well placed to operate in this environment.
Mercia's ability to expand its business by entering into additional links and collaborative arrangements with universities and other research institutions will depend on the willingness of organisations of suitable quality to enter into such arrangements. Failure to successfully initiate new and additional partnerships may limit Mercia's ability to expand.	Failure to interact with university technology transfer offices may result in the termination of Mercia's non-exclusive partnership arrangements.	Nicola Broughton (Investment Director, Technology Transfer) and her team work closely with partner institutions to ensure that each commercial relationship is mutually beneficial and productive. The Group will continue to consider and, where appropriate, enter into new and innovative partnerships and collaborations with research intensive institutions through non-exclusive arrangements.

Corporate and social responsibility

Mercia is committed to conducting all of its business in an honest, ethical and socially responsible manner. The Group endeavours to provide a safe working environment for its employees, as well as to minimise its impact on the environment, in all its activities. The Group has appointed both health and safety and human resource managers to further its aims of providing a safe and inclusive working environment.

Business ethics

In all its activities, the Group aims to be commercial and fair, to maintain its integrity and professionalism and to have due regard for the interests of all of its investors, employees, suppliers and the businesses in which the Group invests.

Mercia seeks to operate as a socially responsible employer and has adopted standards and policies which promote corporate values designed to help and guide employees in their conduct and business relationships. The Group seeks to comply with all laws, regulations and rules applicable to its business and to conduct that business in line with applicable established best practice. The Group takes a zero tolerance approach to bribery and corruption and has enacted procedures to prevent bribery. All employees who are involved with the regulated business of managing investment transactions receive compliance and anti-money laundering training, with periodic refresher courses. The Group recognises that its employees are fundamental to its success and is therefore committed to encouraging the ongoing development of its staff with the aim of maximising the Group's overall performance. Emphasis is placed on staff development through work-based learning, coaching and mentoring.

Employee diversity and employment policies

The Group is an equal opportunities employer and promotes diversity through the selection, training, development and promotion of its employees. Mercia does not differentiate on grounds of gender, ethnicity, sexual orientation, religion or physical ability. For the year ended 31 March 2017, the Group employed an average of 59 (2016: 24) staff, including its Board of eight (2016: seven) Directors. A breakdown of staff by gender is shown in the graphic.

Given the nature of its business, the Group believes that the principal human rights issues affecting the business relate to non-discrimination, gender equality and fair employment practices.

Health and safety

Staff and management at all levels are responsible for the promotion of, and adherence to, health and safety measures in the workplace. The primary purpose of the Group's health and safety policy is to enable all members of staff to go about their everyday business at work, in the expectation that they can do so safely without risk to their health.

Environmental policy

Given the overall size of the Group and its office-based nature, Mercia considers the direct environmental impact of its employees to be relatively low. However, the Group is committed to operating its business in an environmentally responsible and sustainable manner and encourages its employees to reduce their impact on the environment in their day-to-day business activities. During the year Mercia established a cycle to work scheme in which all employees are eligible to participate.

Events after the balance sheet date

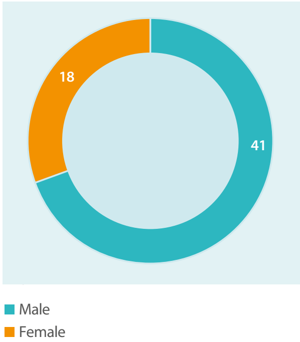
Other than the continuing pipeline of approved direct investments, new office openings and staff recruitment in Leeds and Sheffield to deploy the new Northern Powerhouse Investment Fund mandate wins, there have been no material events since the balance sheet date.

Approval

The Strategic Report was approved by the Board of Directors and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer
30 June 2017

Employee diversity



At the heart of all successful businesses are strong teams. Mercia Technologies PLC's Board includes Non-executive Directors with exceptional listed company and corporate growth success, combining shareholder value creation with good corporate governance at their core. Mercia's four Executive Directors have a highly complementary skill set, which is essential to realise the growth potential of the Mercia Model.

Mark Payton

Chief Executive Officer

Mark is the co-founder of Mercia Fund Management Limited ("MFM"). He has extensive venture investment experience and led the sale of Hybrid Systems (to Myotec) to create PsiOxus, Warwick Effect Polymers (to Polytherics) to create Abzena plc and led the founding investment in Allinea Software Limited. Prior to MFM, Mark was at the Department of Pharmacology, University of Oxford, and played leading roles within Oxford University Innovation (the technology transfer operation of the University of Oxford), spinning out BioAnalab, Oxford Immunotec, Oxitec and Natural Motion – three of which were latterly sold and one listed successfully on NASDAQ. Mark was vice president corporate development at Oxxon Therapeutics Inc, prior to its sale to Oxford BioMedica plc. He gained his PhD jointly between the University of Oxford (Worcester College) and the University of London (King's College). Mark also has an MBA from the University of Warwick, has IMC parts I and II, is FCA accredited, is a Sainsbury's Management Fellow for Life Sciences and was awarded the 2015 EY Entrepreneur of the year (regional and national).

Martin Glanfield

Chief Financial Officer

Martin is a KPMG qualified chartered accountant with more than 20 years' experience as chief financial officer of listed, private equity backed and privately owned technology-led businesses. Martin joined Forward Group PLC in 1993 and was group financial director from 1995 until its sale for £129.0million in 1997. In 1999, as deputy chief executive of Symonds plc, Martin led the public to private of this listed technology group, backed by NatWest Equity Partners. The group was successfully restructured and sold within 12 months to a NASDAQ listed US electronics group, whereupon he became a vice president, working frequently in Silicon Valley. He was chief executive of Forward Group plc from 2003 to 2005 and since then has been group finance and IT director of the large international food processing group Boparan Holdings Ltd and a private equity backed building services business. Martin holds an honours degree in business from Aston University.

Matthew Mead

Chief Investment Officer

Matthew has over 20 years' experience in the investment industry and is a seasoned board executive, having been a non-executive director and non-executive chairman of over 15 early-stage and growth businesses. He worked at 3i from 1995 to 2009 where he managed the disposal of 3i's venture portfolio, realising £200.0million of proceeds through sales, and its pan-European venture portfolio, returning over £180.0million of cash in two years. He subsequently joined NESTA as managing director investments to run its £30.0million venture capital fund and in 2010 was appointed CIO, managing all investment activity, including its £350.0million trust assets and its venture portfolio. Matthew qualified as a chartered accountant with Ernst & Young and holds a degree in economics and geography from Reading University.

Jonathan Diggines

Executive Director, Funds

Before joining the Board, Jonathan had been chief executive of Enterprise Ventures from 2005 to 2016, where he increased funds under management from circa £10.0million to more than £200.0million. Previously Jonathan spent 12 years in practice as a solicitor, then 11 years as a fund manager with Murray Johnstone, followed by four years with Aberdeen Asset Management. He has been responsible for raising and investing more than £800.0million of private equity and venture capital funds in the UK mid-market and has led and managed a substantial portfolio of successful private equity and venture capital investments. He has been a member of the Council of the British Venture Capital Association ("BVCA"), where he chaired the BVCA Legal & Technical Committee. He was chair of the Community Development Finance Association from 2011 to 2015 and is a now a member of the North West Regional Council for the Confederation of British Industry ("CBI"). Jonathan has an MA in jurisprudence from Oxford University.

Susan Searle
Non-executive Chair

Having been Non-executive Deputy Chair of Mercia Technologies at the time of its IPO in December 2014, Susan was elected Non-executive Chair in May 2016. Previously, Susan served as the chief executive officer of Imperial Innovations Group plc (now Touchstone Innovations plc) from January 2002 to July 2013. At Imperial Innovations, Susan led funding rounds totalling circa £250.0million and during her tenure, Imperial Innovations invested £121.0million in a portfolio of healthcare, engineering and software businesses. Prior to that, Susan worked at Montech in Australia (science commercialisation), Signet Group PLC, Bank of Nova Scotia and Shell Chemicals, in a variety of business development and commercial roles. She currently serves as a non-executive director of Benchmark Holdings plc, Horizon Discovery plc and QinetiQ Group plc and is chair of Woodford Patient Capital Trust plc. Susan has an MA in chemistry from Oxford University.

Ian Metcalfe
Senior Independent Director

Ian is a qualified solicitor who retired as managing partner of international law firm Wragge & Co in 2014 after eight years in post. Prior to managing the business, Ian was a corporate partner at the firm for 14 years, acting for a number of substantial public and private companies and private equity houses on a wide range of transactions. In addition, Ian is a director and chair of Commonwealth Games England. He is also a non-executive director of the global waste management group TRRG Holdings Ltd, a merger of Dutch based Terberg Environmental and Spanish based Ros Roca Environment. A double rugby blue, Ian represents Cambridge University on the RFU Council. He is a governor of the Foundation of King Edward VI Schools in Birmingham, as well as a governor of King Edward VI School for Boys and King Edward VI High School for Girls. Ian has an MA in law from Cambridge University and his appointment as Mercia's Senior Independent Director in January 2017, recognises the continuing development and scale of the Group during the past 12 months.

Ray Chamberlain
Non-executive Director

Ray is an entrepreneur with an established track record of shareholder value creation. Until 1997, Ray was executive chairman and the principal shareholder in Forward Group PLC, which he grew from a start-up company in 1978 to become one of Europe's leading high technology printed circuit board manufacturers, listed on the Main Market of the London Stock Exchange. In 1997 Forward Group accepted a £129.0million offer from PCB Investments plc, a company established by Hicks, Muse, Tate & Furst. Subsequently, Ray diversified his interests in a number of areas, which included setting up the Forward Innovation Fund, a trust focused on investing in university spinouts and other technology-led start-ups. Ray was appointed Non-executive Chair at the time of the Group's IPO and having steered Mercia Technologies through its first 18 months as a listed company, moved to a non-executive position in May 2016.

Martin Lamb
Non-executive Director

Martin retired from IMI plc ("IMI") at the end of 2013 after 33 years with the company, the last 13 as chief executive. He oversaw a fundamental reshaping of IMI, moving it from a largely European-based conglomerate with a heavy building materials content, to a highly differentiated and global engineering group, focused on the precise control of fluids and gases in critical applications. As a result, IMI sold and acquired over 30 companies and more than doubled its operating margins under his leadership. Martin is currently chairman of Rotork plc and until July 2016 was the senior independent director of Severn Trent plc. In addition, Martin is chairman of privately owned Evoqua Water Technologies LLC and a member of the European Advisory Board of AEA Investors (UK) Limited. Martin holds a degree in mechanical engineering from Imperial College London and an MBA from Cranfield Business School.

Senior management team

Operating across the Group, the senior management team benefits from decades of business building and operational excellence, from fundraising and management through to running multi-million dollar organisations.

Julian Viggars

Head of Technology Investments, Third Party Funds

Julian was head of technology investments at Enterprise Ventures prior to its acquisition by Mercia. He now works closely with Mercia's CIO to support the Group's Investment Team and looks after 10 of the Group's AIM listed investments including a non-executive director role at fund investment Xeros Technologies PLC. Julian played a leading role in securing the Northern Powerhouse Investment Fund equity mandate. Previously, Julian was an investment director and COO of BioProjects International PLC, an AIM-listed early-stage technology fund which he co-founded with private investor Jim Slater, and was an associate partner with accountants Smith & Williamson in London, where, during his 10 years, he spent 18 months on secondment to Barclays Ventures working on PE buyout transactions.

Mike Hayes

Investment Director, Digital & Digital Entertainment

Mike brings over 23 years' experience in interactive businesses. At multinational games company SEGA, he was CEO for Europe and America presiding over a turnover in excess of £400.0million. He was responsible for the re-birth of SEGA as a multi-platform software company and managed the acquisition of several development studios including Sports Interactive (maker of the Football Manager series) and Creative Assembly (maker of the Total War series). Mike led the team that transferred Sonic successfully onto digital platforms and launched one of the first ever games for the iPhone – Super Monkey Ball. Mike has also held senior roles at Nintendo and UK games company Codemasters.

Rob Johnson

Investment Director, Software & the Internet

Rob has had an extensive career in the digital and e-commerce sector, holding numerous high profile positions in leading organisations, most recently as joint managing director at Buyagift PLC which he helped grow from £3.0million turnover to over £20.0million prior to the sale of the company to Smart&Co. Previously, Rob was managing director and a main board member at Ilion plc and was responsible for the turnaround of the fortunes of the UK organisation. When Rob joined the company the share price was 52.0p and the entire share capital was later bought by Landis at 160.0p per share. Rob played an instrumental role in the successful realisation of Mercia's exit from Allinea Software in December 2016.

Peter Dines

Investment Director, Life Sciences & Biosciences

As a highly successful entrepreneur and investor, Peter brings 20 years' experience in the healthcare sector, holding numerous directorships across a wide range of life sciences businesses. Over this period, Peter has been involved with a number of high profile investments and exits within the sector, including the acquisition of Surgicraft's loss-making business where, as managing director, sales quadrupled within three years and the business was subsequently sold to ISIS Equity Partners. Other key healthcare positions held, both previously and currently, include Bridges Ventures, Cisiv, Diagnostic World and Newtech Ortho.

Dr Mark Volanthen

Investment Director, Electronics, Materials & Manufacturing/Engineering

Mark has extensive hands-on experience in growing technology businesses and has achieved a number of successful exits. He has commercial experience across a wide range of sectors, including energy, defence, instrumentation and communications and is named inventor on over 65 patents. Mark's career started as a founding employee at Kymata, which was acquired by Alcatel for $118.0million. He then held roles including managing director of oil & gas at Guralp Systems and chief executive officer at WFS Technologies and Insensys Aerospace & Defence. He sold Insensys in two transactions to Schlumberger and Moog. Mark also holds various non-executive director, chairman and advisory positions on the boards of high growth technology businesses.

Dr Nicola Broughton

Investment Director, University Technology Transfer

Nicola specialises in identifying university spinout opportunities at Mercia, her background being in IP commercialisation, university spinouts and licensing, primarily within the university and small and medium sized enterprise ("SME") sectors. Since starting to work in technology transfer in 2000, Nicola has fulfilled a number of commercial roles. Her experience includes sourcing and identifying commercial opportunities, IP protection, strategy and management (managing a patent portfolio to global protection), 'freedom to operate', licensing, cross licensing, due diligence and raising finance in both the public and private sectors.

John Simpson

Finance Director

John was the finance director of Enterprise Ventures prior to its acquisition by Mercia and he played a key role in winning the Northern Powerhouse Investment Fund equity mandate alongside Julian Viggars. He is a chartered accountant and spent 11 years with Murray Johnstone Private Equity, followed by four years with Aberdeen Murray Johnson Private Equity as portfolio director and a member of the executive management team. He has 30 years' experience in managing all aspects of private equity as an investor and portfolio director and in fundraising. John has held a number of non-executive director appointments on behalf of institutional investors and client funds and has advised private equity investors and fund investors on due diligence and investment management, in the private and public sectors both in the UK and overseas. He is a former member of the British Venture Capital Association Hi-tech Committee and the VCT Fund Managers' Forum.

The Directors present their Annual Report and the audited financial statements of Mercia Technologies PLC for the year ended 31 March 2017.

Results and dividends

The profit for the year was £1,043,000 (2016: £1,697,000 loss). The Directors do not recommend the payment of a dividend (2016: £nil).

Future developments and events after the balance sheet date

Details of future developments and events that have occurred after the balance sheet date can be found in the Strategic Report on page 51 which forms part of this report by cross-reference.

Directors

The Directors who were in office during the year and up to the date of signing the financial statements were:

Susan Jane Searle
Dr Mark Andrew Payton
Martin James Glanfield
Matthew Sidney Mead
Jonathan Brett Diggines
Ian Roland Metcalfe
Raymond Kenneth Chamberlain
Martin James Lamb

Directors' shareholdings and other interests

A table showing the interests of Directors in the share capital of Mercia Technologies PLC is shown in the Remuneration Report on page 63.

Directors' indemnities

Mercia Technologies PLC has made qualifying third party indemnity provisions for the benefit of all Directors. These were in force during the financial year and remained in force at the date of approval of the financial statements.

Financial instruments

The Group's financial instruments comprise cash and other items, such as trade debtors and trade creditors, which arise directly from its operations. The main purpose of these financial instruments is to fund the Group's operations as well as to efficiently manage working capital and liquidity.

It is the Group's policy not to enter into derivative transactions and no trading in financial instruments has been undertaken during the year under review. The Group therefore faces few risks associated with financial instruments.

The Group's use of financial instruments is discussed further in note 27 to the consolidated financial statements.

Substantial shareholdings

As at 31 March 2017, the Group had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following voting rights of shareholders of the Group:

	Number of Ordinary shares	Percentage %
Invesco Perpetual	88,670,000	29.5
Woodford Investment Management	74,980,042	24.9
Forward Innovation Fund[1]	34,072,336	11.3
Baillie Gifford & Co	22,645,090	7.5
Forward Nominees Limited[1]	16,481,456	5.5
NFU Mutual Insurance Society	13,860,000	4.6

1 Shareholdings connected to Ray Chamberlain

Political donations

During the year ended 31 March 2017 the Group made no political donations (2016: £nil).

Employees

The Group employed an average of 59 (2016: 24) staff throughout the year and is therefore of a size where it is not necessary to have introduced a formal employee consultation process. However, employees are encouraged to be involved in decision-making processes and are provided with information on the financial and economic factors affecting the Group's performance, through regular team meetings, updates from the Chief Executive Officer and via an open and inclusive culture. Given the Group's continuing expansion during the past year, human resource management encompassing recruitment, retention, communication, training and performance management continues to be an important area of focus.

The Group operates a discretionary annual bonus scheme for all of its employees with bonuses being awarded based on their and the Group's overall performance.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment within the Group continues and that workspace and other modifications are made as appropriate. It is the policy of the Group that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the forthcoming Annual General Meeting.

Approved by the Board and signed on its behalf by:

Martin Glanfield
Company Secretary
30 June 2017

Forward House, 17 High Street, Henley-in-Arden
Warwickshire B95 5AA

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the audited financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and have also chosen to prepare the Parent Company financial statements in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework'. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that the Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

In preparing the Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 'Reduced Disclosure Framework' has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, enabling them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's performance, business model and strategy.

This responsibility statement was approved by the Board on 30 June 2017 and signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Introduction

The Directors recognise the importance of sound corporate governance and intend to observe and adhere to, so far as practicable, the recommendations set out in the corporate governance code for small and mid-size quoted companies, published by the Quoted Companies Alliance. For Mercia Technologies, good corporate governance is about ensuring that the Group is aligned with its shareholders' objectives and that the execution of the strategy adopted will create long-term incremental shareholder value. The business backgrounds of the Non-executive Directors in particular reflect the importance with which the Group regards corporate governance. In addition, the Group is a member of the Quoted Companies Alliance to further its understanding of, and adherence to, current good corporate governance practice.

The Board

The Board comprises eight Directors, of which four are Executives and four are Non-executives. Collectively they reflect a balance of different skills, experiences and backgrounds. The Chief Financial Officer is also the Company Secretary.

The Board has a schedule of matters reserved for its approval including, inter alia, setting the Group's strategic direction, approving annual budgets, monitoring performance against plan and authorising all material direct investment decisions and all corporate transactions.

The Board will meet formally for a minimum of eight times each year. During the year to 31 March 2017 the Board met 11 times. Details of attendance at those Board meetings is as follows:

Director	Number of Board meetings attended
Susan Searle	11
Dr Mark Payton	11
Martin Glanfield	11
Matthew Mead	11
Jonathan Diggines	11
Ian Metcalfe	11
Ray Chamberlain[1]	11
Martin Lamb	10

1 Ray Chamberlain is entitled to appoint an alternate Director in his absence.

The Board delegates specific duties and responsibilities to certain committees and has established an Audit Committee, a Remuneration Committee and a Nominations Committee, as described more fully below except in respect of the Remuneration Committee, whose report is set out on pages 60 to 63 of this Annual Report. In May 2016, following recommendation of her appointment by the Nominations Committee, Susan Searle, who had previously been Non-executive Deputy Chair of the Group, was appointed as the new Non-executive Chair, in succession to Ray Chamberlain, who remains on the Board as a Non-executive Director. In January 2017 Ian Metcalfe was appointed as the Board's Senior Independent Director, in recognition of the increasing development and scale of the Group.

As a consequence of Susan's appointment, a number of changes to the composition of the Audit, Nominations and Remuneration Committees took place during the year. Martin Lamb became Chair of the Audit Committee and Susan Searle became Chair of the Nominations Committee, whilst Ian Metcalfe remained Chair of the Remuneration Committee. All four Non-executive Directors now sit on all three committees.

Audit Committee

The Audit Committee is responsible for monitoring the integrity of the Group's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Group's internal control and risk management systems and overseeing the relationship with the external statutory and CASS auditors (including advising on their appointment, agreeing the scope of the audits and reviewing the audit findings).

The Audit Committee will monitor the need for an internal audit function. During the year the Committee comprised Martin Lamb as Chair, Susan Searle, Ian Metcalfe and Ray Chamberlain. Executive Directors attend by invitation. The Audit Committee met four times during the year under review at appropriate times in the reporting and audit cycle. It may also meet at other times if so required. It has unrestricted access to the Group's external auditor. Three of the four meetings were fully attended.

Nominations Committee

The Nominations Committee is responsible for identifying and nominating members of the Board and recommending Directors to be appointed to each committee of the Board, including the Chair of each committee. The Committee also considers succession planning for both Executive and Non-executive Directors. During the year the Committee comprised Susan Searle as Chair, Ian Metcalfe, Ray Chamberlain and Martin Lamb. The Nominations Committee met twice during the year and may also meet at other times if so required. Both meetings were fully attended.

Internal controls

The Board acknowledges its overall responsibility for the Group's system of internal controls and the ongoing review of their effectiveness. These controls are designed to safeguard the Group's assets and are considered appropriate for an AIM listed group of the size and complexity of Mercia Technologies. However, systems of internal control can only identify and manage risks, not eliminate them. Consequently, such controls do not provide an absolute assurance against misstatement or loss. The main features of the Group's internal control system are as follows:

- A control environment exists through the close daily management of the business by the Executive Directors. The Group has a defined organisation structure with delineated investment approval limits. Controls are implemented and monitored by senior staff with the necessary qualifications and experience.
- A list of matters specifically reserved for Board approval.
- Regular detailed management reporting with comparisons and explanations of any material variances against budget or forecasts.
- Financial and custody of asset controls operate to ensure that the assets of the Group are safeguarded and that appropriate accounting records are maintained.

Share dealing, anti-bribery and whistleblowing

The Group has adopted a share dealing code in conformity with the requirements of Rule 21 of the AIM Rules. All employees, including new joiners, are required to agree to comply with the code. The Group has also adopted anti-bribery and whistleblowing policies, which are included in every employee's staff handbook. The Group operates an open and inclusive culture and employees are encouraged to speak up if they have any concerns. The aim of such policies is to ensure that no blurred lines exist and to encourage all employees, regardless of seniority, to bring matters which cause them concern to the attention of either the Executive or Non-executive Directors. The Group has adopted the requirements of the Market Abuse Regulations, to the extent required by AIM listed companies.

Investor relations

The Group is committed to developing and maintaining open channels of communication with its shareholders and the www.merciatech.co.uk website provides up-to-date information on the Group. The Executive Directors are available to meet with shareholders and sector analysts at regular intervals throughout the year and the Non-executive Directors are also available for informal discussions if required. Shareholders will have an opportunity to raise questions with the Board at the Group's Annual General Meeting, which this year will be held on 18 September 2017.

Going concern

Based on the overall strength of the Group's balance sheet, including its significant liquidity position at the year end, together with its forecast future operating and investment activities, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors have adopted the going concern basis in preparing the Annual Report and financial statements.

Martin Glanfield
Company Secretary
30 June 2017

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of the Chair, the Executive Directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including where appropriate salaries, bonuses, share options and other long-term incentives. The remuneration of Non-executive Directors is a matter for the Chair and the Executive Directors. No Director is involved in any decision as to his or her own remuneration.

For the year to 31 March 2017 the Remuneration Committee comprised Ian Metcalfe as Chair, Susan Searle, Ray Chamberlain and Martin Lamb. The Remuneration Committee will meet at least twice a year and otherwise as required. During the past year the Committee met twice formally, with both meetings being fully attended, and on other occasions on an 'as required' basis.

Remuneration policy

The Remuneration Committee believes that the success of the Group depends, in part, on the performance of the management team and in being able to attract, retain and motivate people of high calibre and experience. The Committee also recognises the importance of ensuring that employees are incentivised and identify closely with the achievement of the Group's strategic objectives, the leading one of which is to achieve incremental shareholder value over the medium term through successful investment in, and subsequent exit from, technology based companies.

Accordingly, the Committee seeks to provide a fair, balanced, competitive and affordable remuneration package for its Executive Directors and staff, while ensuring that a significant proportion of the total remuneration of each Executive Director is linked to performance.

The main elements of the remuneration package for Executive Directors are base salary, an annual performance related bonus scheme and participation in the Group's long-term share option scheme and carried interest plan. Other benefits include contributions to a defined contribution personal pension scheme, life assurance, private health insurance and permanent health insurance. Only base salaries are pensionable. In 2016 the Committee engaged external remuneration consultants to review executive remuneration throughout the enlarged Group, following the acquisition of Enterprise Ventures.

2016 Remuneration policy review

The purpose of the Group's remuneration policy is to balance three key objectives, namely: to attract and retain talent, to focus behaviours and to be affordable. Within this context, the Committee's external adviser, MM&K, was asked to review whether the total remuneration packages of the Executive Directors and Investment Directors should be amended, being mindful of all stakeholder interests.

Given the Group's early position in its growth cycle, there is natural tension between 'affordability' and the need to 'attract and retain talent' in what has become recognised as an attractive and competitive sector. The 2016 review therefore focused on four elements of remuneration – base salary, annual bonuses, long-term incentives and benefit packages – in the context of current remuneration practices, the Group's own objective of sustained long-term capital growth and benchmarking the existing remuneration packages against a defined comparator group.

The review outputs, which have been endorsed by the Committee, included a recommendation that the Group adopts a policy of active remuneration review which is event rather than time driven, ie growing Net Asset Value ("NAV") above an agreed target. More specific agreed recommendations in respect of the Executive Directors are summarised below:

Base salaries – these should move gradually towards lower quartile market levels of the comparator group, reflecting the lower market capitalisation of the Group in this early-stage of its development.

Annual bonuses – the benchmarking review showed that the original maximum annual bonus potential of 25% of base salary was significantly 'off market'. The review recommended that maximum bonuses of up to 100% of base salary should be capable of being earned for exceptional performance. The review also suggested that the Committee should consider deferring an element of future bonus awards into Mercia shares, to be retained for three years.

Long-term incentives – comparator investment groups (be they listed or un-listed) typically implement carried interest plans which allocate 20% carried interest to the senior executive and investment team. Mercia's plan provides for 10% carried interest to be allocated because the Group also has a share option scheme, although the current operation of the two schemes still does not bring the senior team fully in line with 'market'. The review therefore recommended that for at least the three years to 31 March 2019 annual share option awards be made to Executive Directors at the level of 1 x base salary.

Having carefully considered these and other recommendations, the Committee adopted them as the Group's performance focused remuneration policy. Recognising the importance of affordability however, the Committee and the Executive Directors together agreed that 50% of base salary should be the maximum bonus for exceptional performance in 2016/17, while the Group continues to establish its investment track record, operating model and NAV growth trajectory. The criteria for determining the 2016/17 bonus award was therefore as follows:

1. Material portfolio fair value growth/realised gains – 35% weighting
2. Progress by five leading investments in terms of management and board strength, revenue targets met, commercial progress, operating within budget – 35% weighting
3. At least £65.0million of new fund mandates secured – 30% weighting.

Having considered the performance of the Group and the Executive Directors against each of these criteria, the Committee awarded bonuses to each Executive Director at a level of 35% of their base salary for 2016/17.

The Committee has also agreed to a maximum bonus of 100% of base salary for exceptional performance for 2017/18, with the bonus award payable in cash up to 50% of base salary and the remainder in deferred shares. The agreed criteria for determining the ultimate 2017/18 award is:

1. Material portfolio fair value growth/realised gains – 30% weighting
2. Progress by six leading direct investments in terms of management and board strength, revenue targets met, commercial progress, operating within budget – 30% weighting
3. Building a sustainable funnel of future Emerging Stars and meeting fund mandate investment targets – 20% weighting
4. Subjective measure of performance by each Executive Director reflecting their specific areas of responsibility and influence – 20% weighting.

The Committee will continue to monitor the affordability and suitability of the Group's remuneration policy and performance criteria.

Directors' service contracts

The table below summarises the service contract and letter of appointment details for each Executive and Non-executive Director as at the date of this report:

	Effective date of appointment	Annual salary £'000	Notice period
Dr Mark Payton	15 December 2014	212	6 months
Martin Glanfield	1 October 2014	189	6 months
Matthew Mead	26 May 2015	219	6 months
Jonathan Diggines	9 March 2016	191	6 months
Susan Searle	15 December 2014	65	3 months
Ian Metcalfe	15 December 2014	46	3 months
Ray Chamberlain	15 December 2014	40	3 months
Martin Lamb	13 January 2015	40	3 months

Equity-based incentive schemes

The Committee believes that equity-based incentive schemes increase the focus of employees on achieving the Group's medium-term strategic objectives, while at the same time providing a strong incentive for retaining and attracting individuals of high calibre. The Committee has implemented two long-term incentive schemes.

The Mercia Company Share Option Plan ("CSOP")

The Remuneration Committee is responsible for issuing awards of options to purchase Ordinary shares under the Group's share incentive plan, known as the Mercia CSOP, which was adopted by Mercia Technologies on 8 December 2014. All Executive Directors and employees are eligible to participate. The Committee intends that appropriate awards be made over time, not exceeding the limits contained in the CSOP.

The Mercia CSOP comprises two parts. The first part satisfies the requirements of Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003 (so that options granted under it are subject to capital gains tax treatment). The second part will be used to grant options which cannot be granted within the limit prescribed by the applicable tax legislation and which will not therefore benefit from favourable tax treatment. No options will be granted under the Mercia CSOP more than 10 years after its adoption. The number of Ordinary shares over which options may be granted on any date is limited so that the total number of Ordinary shares issued and issuable in respect of options granted in any 10 year period under the Mercia CSOP and any other employee share scheme is restricted to 10% of the issued Ordinary shares from time to time.

The first options granted under the Mercia CSOP ('Initial Options') have an exercise price equal to the IPO Placing price, being 50.0 pence, which was agreed with HMRC as not less than the market value of an Ordinary share for the purpose of making the first grants. Awards are subject to a performance condition. The condition shall be satisfied if the total shareholder return (being the increase in the price of an Ordinary share from a 50.0 pence base value plus any dividend yield), from Admission to the third anniversary of Admission, is not less than 6% (compound) per annum. Initial Options were conditionally granted on 8 December 2014 and became unconditional on Admission. Further options have been issued in subsequent years to new joiners and in the year to 31 March 2017 additional options were granted to Dr Mark Payton, Martin Glanfield, Matthew Mead and Jonathan Diggines. The total number of options in issue at the year end was 8,715,000 (2016: 4,420,000).

The Initial Options will be exercisable as to one-third on or after the third anniversary of Admission, one-third on or after the fourth anniversary, with the remaining one-third on or after the fifth anniversary, provided that on the vesting date the performance condition has been satisfied. The options subsequently granted to new staff, Dr Mark Payton, Martin Glanfield, Matthew Mead and Jonathan Diggines have the same performance and exercise criteria, save that for options granted from July 2016 onwards, the performance condition has been amended to a requirement that the total shareholder return from the date of grant to the third anniversary is not less than 6% (compound) per annum, using a volume-weighted average share price for the 90 days prior to the third anniversary of the date of grant.

The methodology for determining the market value of an Ordinary share for all future grants of options under the Mercia CSOP has also been agreed with HMRC, such that the Group will use the closing mid-market price quoted by the London Stock Exchange on the trading day immediately preceding the date of grant.

The Mercia Carried Interest Plan ("CIP")

Mercia operates a carried interest plan for the Executive Directors and certain other investment executives ('Plan Participants'). Each CIP will operate in respect of direct investments made by Mercia Technologies during a 24 month period, save that the first CIP was for the period from the plan's adoption on 1 August 2015 to 31 March 2017.

Once Mercia Technologies has received an aggregate annualised 6% realised return during the relevant investment period, Plan Participants will receive, in aggregate, 10% of the net realised cash profits from the direct investments made over the relevant period. Plan Participants' carried interest is subject to good and bad leaver provisions.

In addition, Mercia Technologies has implemented a Phantom Carried Interest Plan ("PCIP"), based on the above criteria, in respect of the direct investments which the Group acquired shortly before Admission and those new direct investments made in the post IPO period leading up to the implementation of the CIP on 1 August 2015.

Audited information

The following section contains the disclosures required by the AIM Rules and by UK company law.

Directors' remuneration

The aggregate remuneration received by the Directors who served during the year is set out below:

	Salaries payable		Pension contributions		Taxable benefits		Performance related bonus		Total	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Executive Directors										
Dr Mark Payton	**204**	185	**22**	20	**2**	9	**71**	46	**299**	260
Martin Glanfield	**185**	175	**20**	19	**2**	9	**65**	44	**272**	247
Matthew Mead	**214**	144	**–**	16	**2**	8	**67**	43	**283**	211
Jonathan Diggines	**187**	179	**–**	7	**1**	1	**66**	–	**254**	187
Non-executive Directors										
Susan Searle	**65**	45	**–**	–	**–**	–	**–**	–	**65**	45
Ian Metcalfe	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
Ray Chamberlain	**40**	65	**–**	–	**–**	–	**–**	–	**40**	65
Martin Lamb	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40
	975	873	**42**	62	**7**	27	**269**	133	**1,293**	1,095

Mercia pays reasonable expenses incurred by its Non-executive Directors and may settle any tax and National Insurance due on such payments where relevant.

Share options

The number of options over Mercia Technologies' Ordinary shares held by Directors as at 31 March 2017 is set out below:

	Number of options				
	As at 31 March 2017	As at 31 March 2016	Date of grant	Exercise price	Period of exercise
Executive Directors					
Dr Mark Payton	**1,000,000**	1,000,000	8 Dec 2014	50.00p	18 Dec 2017 to 7 Dec 2024[1]
	400,000	–	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
Martin Glanfield	**1,000,000**	1,000,000	8 Dec 2014	50.00p	18 Dec 2017 to 7 Dec 2024[1]
	400,000	–	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
Matthew Mead	**42,857**	42,857	31 Jul 2015	70.00p	31 Jul 2018 to 30 Jul 2025[2]
	957,143	957,143	31 Jul 2015	57.50p	31 Jul 2018 to 30 Jul 2025[2]
	400,000	–	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]
Jonathan Diggines	**400,000**	–	27 Jul 2016	51.25p	27 Jul 2019 to 26 Jul 2026[3]

1 The options will be exercisable as to one-third from 18 December 2017, one-third from 18 December 2018 and the remaining one-third from 18 December 2019.
2 The options will be exercisable as to one-third from 31 July 2018, one-third from 31 July 2019 and the remaining one-third from 31 July 2020.
3 The options will be exercisable as to one-third from 27 July 2019, one-third from 27 July 2020 and the remaining one-third from 27 July 2021.

Directors' share interests

The interests of the Directors and their connected persons in the Ordinary shares of Mercia Technologies are set out below:

	Number of Ordinary shares as at 31 March 2017	Number of Ordinary shares as at 30 June 2017
Susan Searle	1,097,388	1,097,388
Dr Mark Payton	6,655,472	6,655,472
Martin Glanfield	293,369	293,369
Matthew Mead	75,730	75,730
Jonathan Diggines	857,919	857,919
Ian Metcalfe	132,609	132,609
Ray Chamberlain[1]	60,824,766	60,824,766
Martin Lamb	132,609	132,609

1 Ray Chamberlain is personally interested in 6,149,752 Ordinary shares. The remaining 54,675,014 Ordinary shares are held by the Forward Innovation Fund (34,072,336 Ordinary shares), Croftdawn Limited (3,994,786 Ordinary shares), Mercia Growth Nominees Limited (126,436 Ordinary shares) and Forward Nominees Limited (16,481,456 Ordinary shares as nominee for certain members of the Chamberlain family and close associates, including Ray Chamberlain).

Ian Metcalfe
Chair of the Remuneration Committee
30 June 2017

Independent auditor's report to the members of Mercia Technologies PLC

We have audited the financial statements of Mercia Technologies PLC for the year ended 31 March 2017 which comprise the consolidated statement of comprehensive income, the consolidated and Company balance sheets, the consolidated and Company statements of changes in equity, the consolidated cash flow statement and the related notes 1 to 42. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Company financial statements is applicable law and United Kingdom Accounting Standards (Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

This report is made solely to the Group's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Group's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Group's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 31 March 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Other matters

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Group or the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group or Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Halls FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor

Birmingham, United Kingdom
30 June 2017

Consolidated statement of comprehensive income
For the year ended 31 March 2017

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Revenue	3	**6,660**	1,755
Cost of sales		**(92)**	(79)
Gross profit		**6,568**	1,676
Fair value movements in investments	4	**4,268**	896
Realised gains on disposal of investments		**839**	–
Administrative expenses:			
Share-based payments charge	6	**(395)**	(230)
Amortisation of intangible assets	7	**(301)**	(17)
Other administrative expenses		**(9,051)**	(4,011)
Operating profit/(loss) before exceptional items	7	**1,928**	(1,686)
Exceptional items	8	**(1,125)**	(372)
Operating profit/(loss)		**803**	(2,058)
Finance income	9	**186**	361
Profit/(loss) before taxation		**989**	(1,697)
Taxation	10	**54**	–
Profit/(loss) and total comprehensive income/(loss) for the financial year		**1,043**	(1,697)
Basic and diluted earnings/(loss) per Ordinary share (pence)	11	**0.47**	(0.80)

All results derive from continuing operations.

The notes on pages 69 to 85 are an integral part of these financial statements.

Consolidated balance sheet
As at 31 March 2017

	Note	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Assets			
Non-current assets			
Goodwill	12	**10,328**	10,328
Intangible assets	14	**1,186**	1,487
Property, plant and equipment	15	**151**	145
Investments	16	**52,028**	38,143
Total non-current assets		**63,693**	50,103
Current assets			
Trade and other receivables	17	**747**	798
Short-term liquidity investments	18	**35,000**	10,000
Cash and cash equivalents	18	**28,829**	20,932
Total current assets		**64,576**	31,730
Total assets		**128,269**	81,833
Current liabilities			
Trade and other payables	19	**(6,698)**	(1,521)
Non-current liabilities			
Deferred taxation	20	**(217)**	(271)
Total liabilities		**(6,915)**	(1,792)
Net assets		**121,354**	80,041
Equity			
Issued share capital	21	**3**	2
Share premium	22	**48,243**	9,494
Other distributable reserve	23	**70,000**	70,000
Retained earnings		**1,314**	271
Share-based payments reserve		**669**	274
Other reserve	24	**1,125**	–
Total equity		**121,354**	80,041

The notes on pages 69 to 85 are an integral part of these financial statements.

The consolidated financial statements of Mercia Technologies PLC, registered number 09223445, on pages 65 to 85 were approved by the Board of Directors and authorised for issue on 30 June 2017. They were signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Consolidated cash flow statement
For the year ended 31 March 2017

	Note	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Cash flows from operating activities:			
Operating profit/(loss)		**803**	(2,058)
Adjustments to reconcile operating profit/(loss) to net cash flows used in operating activities:			
Depreciation of property, plant and equipment	15	**76**	33
Fair value movements in investments	4	**(4,268)**	(896)
Realised gains in disposal of investments		**(839)**	–
Share-based payments charge	6	**395**	230
Amortisation of intangible assets	14	**301**	17
Exceptional items – deferred consideration payable	8	**1,125**	–
Working capital adjustments:			
Decrease in trade and other receivables	17	**73**	522
Increase in trade and other payables	19	**5,177**	128
Net cash generated from/(used in) operating activities		**2,843**	(2,024)
Cash flows from investing activities:			
Purchase of direct investments	16	**(11,828)**	(13,108)
Proceeds from the sale of direct investments		**2,909**	–
Investee company loan repayments	16	**140**	94
Cash received on the dissolution of Mercia Fund 2		**–**	384
Purchase of subsidiary undertaking	13	**–**	(10,262)
Cash acquired on purchase of subsidiary undertaking		**–**	1,953
Net cash flows from direct investment activities and the purchase of subsidiary undertakings		**(8,779)**	(20,939)
Cash flows from other investing activities:			
Purchase of property, plant and equipment	15	**(82)**	(113)
Interest received		**165**	397
(Increase)/decrease in short-term liquidity investments	18	**(25,000)**	20,000
Net cash (used in)/generated from other investing activities		**(24,917)**	20,284
Net cash used in total investing activities		**(33,696)**	(655)
Cash flows from financing activities:			
Proceeds from the issue of Ordinary shares	21	**40,000**	–
Transaction costs relating to the issue of Ordinary shares	22	**(1,250)**	(22)
Net cash generated from/(used in) financing activities		**38,750**	(22)
Net increase/(decrease) in cash and cash equivalents		**7,897**	(2,701)
Cash and cash equivalents at the beginning of the year		**20,932**	23,633
Cash and cash equivalents at the end of the year	18	**28,829**	20,932

Transaction costs relating to the issue of Ordinary shares have been deducted from share premium.

Consolidated statement of changes in equity

For the year ended 31 March 2017

	Issued share capital £'000 (note 21)	Share premium £'000 (note 22)	Other distributable reserve £'000 (note 23)	Retained earnings £'000	Share-based payments reserve £'000	Other reserve £'000 (note 24)	Total £'000
As at 1 April 2015	2	8,825	70,000	1,968	44	–	80,839
Loss and total comprehensive loss for the year	–	–	–	(1,697)	–	–	(1,697)
Issue of share capital	–	691	–	–	–	–	691
Costs of share capital issued	–	(22)	–	–	–	–	(22)
Share-based payments charge	–	–	–	–	230	–	230
Deferred consideration payable	–	–	–	–	–	–	–
As at 31 March 2016	2	9,494	70,000	271	274	–	80,041
Profit and total comprehensive income for the year	–	–	–	1,043	–	–	1,043
Issue of share capital	1	39,999		–	–	–	40,000
Costs of share capital issued	–	(1,250)	–	–	–	–	(1,250)
Share-based payments charge	–	–	–	–	395	–	395
Deferred consideration payable	–	–	–	–	–	1,125	1,125
As at 31 March 2017	**3**	**48,243**	**70,000**	**1,314**	**669**	**1,125**	**121,354**

Notes to the consolidated financial statements
For the year ended 31 March 2017

1. Accounting policies
The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied throughout the year unless otherwise stated.

General information
Mercia Technologies PLC ('the Group', 'Mercia') is a public limited company incorporated and domiciled in the United Kingdom, with registered number 09223445. Its Ordinary shares are listed on the Alternative Investment Market ("AIM") of the London Stock Exchange. The registered office address is Mercia Technologies PLC, Forward House, 17 High Street, Henley-in-Arden, B95 5AA. Mercia Technologies PLC's Ordinary shares were admitted to trading on AIM on 18 December 2014.

Details of the Group's activities and strategy are given in the Strategic Report which begins on page 4.

Basis of preparation
The consolidated financial statements of Mercia Technologies PLC have been prepared in accordance with European Union ("EU") endorsed International Financial Reporting Standards ("IFRSs"), the IFRS Interpretations Committee (formerly the International Financial Reporting Interpretations Committee ("IFRIC")) interpretations, and the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with IFRSs as endorsed by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The financial statements have been prepared on the going concern basis, as explained in the Corporate Governance Report on page 58, and under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities at fair value through profit or loss, as required by International Accounting Standard ("IAS") 39 'Financial Instruments: Recognition and Measurement', and explained further in the accounting policies below.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable. These are described more fully below:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation
Subsidiaries
The consolidated financial statements incorporate the financial statements of Mercia Technologies PLC and entities controlled by it (its subsidiaries). Other than Mercia Fund 1 General Partner Limited (which is 98% owned), and Mercia Investment Plan LP (which is 90% owned), all subsidiaries are 100% equity owned and have been included in the consolidated financial statements. Control is achieved when the Group:

- has power over the investee;
- is exposed, or has rights, to a variable return from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee company if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee company, it considers that it has power over the investee company when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee company unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee company are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

1. Accounting policies continued

Basis of consolidation continued

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Business combinations

The Group accounts for business combinations using the acquisition method from the date that control is transferred to the Group. Both the identifiable net assets and the consideration transferred in the acquisition are measured at fair value and transaction costs are expensed as incurred. Goodwill arising on acquisitions is tested annually for impairment.

Investments in associates

Investments that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28 'Investments in Associates', which requires such investments to be excluded from its scope where those investments are designated upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', with changes in fair value recognised in the relevant period.

New standards, interpretations and amendments not yet effective

At the date of approving these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 9, 'Financial Instruments' – effective for annual periods beginning on or after 1 January 2018

IFRS 15, 'Revenue from Contracts with Customers' – effective for annual periods beginning on or after 1 January 2018

IFRS 16, 'Leases' – effective for annual periods beginning on or after 1 January 2019 with earlier application permitted if IFRS15 'Revenue from Contracts with Customers', is also applied

IAS 7 (amendments), 'Statement of Cash Flows' – effective for annual periods beginning on or after 1 January 2017

IAS 12 (amendments), 'Recognition of Deferred Tax Assets for Unrealised Losses' – effective for annual periods beginning on or after 1 January 2017

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future years.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of VAT. All revenue from services is generated within the United Kingdom. Revenue from services comprises:

Fund management fees

Fund management fees are generally earned as a fixed percentage of funds under management and are recognised as the related services are provided.

Initial management fees

Initial management fees are generally earned as a fixed percentage of the amounts invested by the Group, are one-off payments made by the investee company and are recognised upon completion of the investment.

Portfolio directors' fees

Portfolio directors' fees are earned either as a percentage of the amounts invested by the Group, or as a fixed amount. These are annual fees, typically charged quarterly in advance to the investee company. Amounts are initially recorded as deferred income, included under current liabilities and amortised in the consolidated statement of comprehensive income over the period to which the services relate.

1. Accounting policies continued

Interest income

Interest income earned on cash deposits and short-term liquidity investments is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Exceptional items

The Group classifies items of income and expenditure as exceptional when, in the opinion of the Directors, the nature of the item or its size is likely to be material, so as to assist the reader of the financial statements to better understand the results of the operations of the Group. Such items are by their nature not expected to recur as part of the normal operation of the business and are shown separately on the face of the consolidated statement of comprehensive income.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Retirement benefit costs

Payments to defined contribution personal pension plans are recognised as an expense when employees have rendered a service entitling them to the contributions. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the consolidated balance sheet.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current or deferred tax arises from the initial accounting of a business combination, the tax effect is included in the accounting for the business combination.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities, in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

1. Accounting policies continued

Taxation continued

The Group primarily seeks to generate capital gains from its holdings in direct investments over the longer term but has, since IPO in December 2014, made annual net operating losses (excluding fair value movements) from its operations from a UK tax perspective. Capital gains arising from the disposal of direct investments would ordinarily be taxed upon realisation of such investments. However, since the Group's activities are substantially trading in nature, the Directors believe that it qualifies for the Substantial Shareholdings Exemption ("SSE"). This exemption provides that gains arising on the disposal of qualifying investments are not chargeable to UK corporation tax and, as such, the Group has continued not to recognise a provision for deferred taxation in respect of fair value gains in those investments that meet the qualifying criteria. Gains arising on the disposal of non-qualifying investments would ordinarily give rise to taxable profits for the Group, to the extent that these exceed the Group's operating losses from time to time.

Intangible assets

Identifiable intangible assets are recognised when the Group controls the assets, it is probable that future economic benefits attributable to the assets will flow to the Group and the fair value of the assets can be measured reliably.

Intangible assets represent contractual arrangements in respect of third party limited partners' and other similar investors' funds under management acquired through the acquisition of Enterprise Ventures Group Limited ("Enterprise Ventures"). At the date of acquisition the fair value of these contracts was calculated and subsequently the assets are held at amortised cost. The fair value of the intangible assets is being amortised on a straight-line basis over the expected average duration of the remaining fund management contracts of five years, so as to write off the fair value of the contracts less their estimated residual values.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired. Goodwill is not amortised but is reviewed annually for impairment in accordance with IAS 36, 'Impairment of Assets'.

Property, plant and equipment

Tangible assets are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their expected useful lives, using the straight-line method, on the following basis:

Fixtures, fittings and office equipment	33%
Leasehold improvements	over the remaining life of the lease

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets at FVTPL are either financial assets held for trading or financial assets that are designated at FVTPL. The Group has investments in unlisted shares that are not traded in an active market but are classified as financial assets at FVTPL and stated at fair value, because the Directors consider that fair value can be reliably measured. Fair value is determined in the manner described in note 2 of these financial statements. Gains and losses arising from changes in fair value are recognised in profit or loss.

1. Accounting policies continued

Financial instruments continued

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

A financial asset other than a financial asset held for trading may be designated at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'fair value movements in investments' line in the consolidated statement of comprehensive income.

Valuation of financial assets held at fair value

The fair values of quoted investments are based on bid-prices at the balance sheet date.

The judgement required to determine the appropriate valuation methodology of unquoted equity investments means there is a risk of material adjustment to the carrying amounts of assets and liabilities. This is a critical accounting judgement and as a result, is set out in more detail in note 2 of these financial statements.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to receive the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset in its entirety, the difference between the asset's fair value and the sum of the consideration received is recognised as a realised gain or loss or disposal of investment in profit or loss.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Cash, cash equivalents and short-term liquidity investments

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of less than three months. Short-term liquid investments with a maturity of over three months and less than 12 months are included in a separate category, 'short-term liquidity investments'.

1. Accounting policies continued

Share-based payments

Equity-settled share-based payments to Executive Directors and certain employees of the Group, whereby recipients render services in exchange for shares or rights over shares, are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 6.

The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the equity instruments that will eventually vest. At each balance sheet date, the Group reviews its estimate. The impact of any revision to the previous estimate is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Operating segments are aggregated into reporting segments where they share similar economic characteristics. Note 3 to these financial statements gives further details on the Group's segmental reporting.

2. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies described in note 1 above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Directors have made the following judgements and estimates, which have had the most significant effect on the carrying amounts of the assets and liabilities in these financial statements.

Fair value measurements and valuation processes

The judgements required to determine the appropriate valuation methodology of unquoted equity investments means there is risk of a material adjustment to the carrying amounts of assets and liabilities. These judgements include a decision whether or not to impair or uplift investment valuations.

The fair value of unlisted securities is established using the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCVG"). The valuation methodology most commonly used by the Group is 'price of recent investment', which can be either the 'price of recent funding round' or 'cost' in the case of a new direct investment.

Given the nature of the Group's investments in early-stage companies, where there are often no current and no short-term future earnings or positive cash flows, it can be difficult to gauge the probability and financial impact of the success or failure of commercial development or research activities and to make reliable cash flow forecasts. Consequently, the most appropriate approach to determine fair value is a methodology that is based on market data, that being the price of a recent investment. The Group considers that fair value estimates that are based entirely on observable market data will be of greater reliability than those based on assumptions and accordingly, where there has been any recent investment by third parties, the price of that investment will generally provide a basis for the valuation. Where the investment being valued was itself made recently, its cost will generally provide a good indication of fair value unless there is objective evidence that the investment has since been impaired, such as observable data suggesting a deterioration of the financial, technical, or commercial performance of the underlying business.

If there is no readily ascertainable value from following the 'price of recent investment' methodology, the Group considers alternative methodologies, which are referred to in the IPEVCV guidelines, being principally financial measures ('enterprise values'), such as trading and profitability expectations, requiring the Directors to make assumptions over the timing and nature of future revenues when calculating fair value. Where a fair value cannot be estimated reliably, the investment is reported at the carrying value at the previous reporting date unless there is evidence that the investment has since become impaired.

All recorded values of investments are regularly reviewed for any indication of impairment and adjusted accordingly. The length of period for which it remains appropriate to use the price of recent investment depends on the specific circumstances of the investment and the stability of the external environment. At each reporting date the Group considers whether any changes or events subsequent to the period end would imply that a change in the fair value of the investment may be required. Where the Group considers that there is an indication that the fair value has changed, an estimation is made of the required amount of any adjustment from the last price of recent investment. Wherever possible, this adjustment is based on objective data from the investee company and the experience and judgement of the Group. However any adjustment is, by its very nature, subjective.

2. Critical accounting judgements and key sources of estimation uncertainty continued

Fair value measurements and valuation processes continued

Where deterioration in value has occurred, the Group reduces the carrying value of the investment to reflect the estimated decrease. If there is evidence of value creation, the Group may consider increasing the carrying value of the investment. However, in the absence of additional financing rounds or profit generation, it can be difficult to determine the value that a purchaser may place on positive developments, given the potential outcome and the costs and risks to achieving that outcome.

3. Segmental reporting

For the year ended 31 March 2017, the Group's revenue and profit were derived from its principal activity within the United Kingdom.

IFRS 8 'Operating Segments' defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. The Chief Operating Decision Maker has been identified as the Board of Directors. The Directors are of the opinion that under IFRS 8 the Group has only one operating segment, being Technology Transfer and Investment, because the results of the Group are monitored on a Group-wide basis. The Board of Directors assesses the performance of the operating segment using financial information which is measured and presented in a consistent manner.

An analysis of the Group's revenue is as follows:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Fund management fees	**4,068**	473
Initial management fees	**748**	642
Portfolio Directors' fees	**1,747**	536
Other revenue	**97**	104
	6,660	1,755

4. Fair value movements in investments

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Net fair value movements in investments held (note 16)	**4,268**	896

No other gains or losses have been recognised in respect of loans and receivables. No gains or losses have been recognised on financial liabilities measured at amortised cost.

5. Employees and Directors

The average number of persons (including Executive and Non-executive Directors) employed by the Group during the year was:

	Year ended 31 March 2017 Number	Year ended 31 March 2016 Number
Technology Transfer and Investment	**40**	10
Central functions	**19**	14
	59	24

Central functions comprise senior management (including Executive and Non-executive Directors), finance, health and safety, human resources, compliance administration and marketing.

5. Employees and Directors continued

The aggregate employee benefit expense (including Executive and Non-executive Directors) was:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Wages and salaries	**5,253**	2,075
Social security costs	**610**	267
Other pension costs (note 25)	**285**	161
	6,148	2,503

The Directors represent the key management personnel. Detailed disclosures in respect of Directors' remuneration are included in the audited section of the Remuneration Report on page 62, which forms part of these financial statements.

The exceptional item disclosed in note 8 to these consolidated financial statements will only be payable to the extent that each of the venders are still employees of Enterprise Ventures at the end of the deferred consideration period, being 9 March 2018. Therefore accounting standards require that this is included as an expense in the consolidated statement of comprehensive income.

6. Share-based payments

The Group operates share option schemes for Executive Directors and all employees of the Group. Further details are set out on pages 61 to 62 of the Remuneration Report.

Total options existing over Ordinary shares as at 31 March 2017 are summarised below:

Scheme	Date of grant	Date of expiry	Number of share options	Exercise price
Approved share option scheme	18 December 2014	7 December 2024	380,000	50.00p
	31 July 2015	30 July 2025	42,857	70.00p
	11 August 2015	10 August 2025	173,912	69.00p
	27 July 2016	26 July 2026	1,464,277	51.25p
Unapproved share option scheme	18 December 2014	7 December 2024	2,340,000	50.00p
	31 July 2015	30 July 2025	957,143	57.50p
	11 August 2015	10 August 2025	336,088	57.50p
	27 July 2016	26 July 2026	3,020,723	51.25p
			8,715,000	

Details of the share options outstanding as at 31 March 2017 are as follows.

	Year ended 31 March 2017		Year ended 31 March 2016	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Share options outstanding as at 1 April	**4,420,000**	**53.14p**	3,060,000	50.00p
Granted during the year	**4,505,000**	**51.02p**	1,510,000	59.18p
Forfeited during the year	**(210,000)**	**50.12p**	(150,000)	50.00p
Exercised during the year	**–**	**–**	–	–
Expired during the year	**–**	**–**	–	–
Share options outstanding at 31 March	**8,715,000**	**50.16p**	4,420,000	53.14p

Fair value charge

The fair value charge for the share options in issue has been based on the Black-Scholes model with the following key assumptions:

Date of grant	Exercise price	Share price at date of grant	Risk free rate	Assumed time to exercise	Assumed volatility	Fair value per option
18 December 2014	50.00p	50.00p	1.0%	10 years	30%	19.84p
31 July 2015	70.00p	70.00p	1.0%	10 years	30%	27.78p
31 July 2015	57.50p	70.00p	1.0%	10 years	30%	32.24p
11 August 2015	69.00p	69.00p	1.0%	10 years	30%	27.38p
11 August 2015	57.50p	69.00p	1.0%	10 years	30%	31.45p
27 July 2016	51.25p	51.25p	1.0%	10 years	30%	20.35p

No dividends are assumed. The risk free rate is taken from the yield on zero coupon United Kingdom government bonds on a term consistent with the expected life. Assumed volatility is based on a review of comparators and analysis of movements in the Group's share price since listing.

6. Share-based payments continued

Fair value charge continued

The Group did not enter into any share-based payment transactions with parties other than Executive Directors and employees during the year.

The total charge for the year recognised in the consolidated statement of comprehensive income for share options granted to Executive Directors and employees was £395,000 (2016: £230,000).

7. Operating profit/(loss) before exceptional items

Operating profit/(loss) before exceptional items is stated after charging:

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Staff costs (note 5)	**6,148**	2,503
Share-based payments charge (note 6)	**395**	230
Depreciation of property, plant and equipment (note 15)	**76**	33
Amortisation of intangible assets (note 14)	**301**	17
Operating lease costs	**329**	205
Auditor's remuneration:		
– Fees payable to the Company's auditor for the audit of the Company and consolidated accounts	**34**	30
Fees payable to the Company's auditor for other services:		
– The auditing of accounts of subsidiaries of the Company	**54**	21
– CASS related assurance services	**25**	15
– Taxation compliance services	**–**	12
– Corporate finance services	**–**	87
– All other non-audit services	**–**	4

8. Exceptional items

The exceptional item for the year ended 31 March 2017 represents 50% of the total anticipated deferred consideration payable in respect of the acquisition of Enterprise Ventures, which is contingent upon it raising at least £80,000,000 of net new third party funds during the two year period following its acquisition and each of the vendors still being employed by the Group on the second anniversary of completion, being 9 March 2018. The prior year exceptional item represents costs incurred in the acquisition of Enterprise Ventures.

9. Finance income

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Interest income arising from:		
Cash and cash equivalents	**102**	134
Short-term liquidity investments	**30**	207
Investee company loans	**32**	20
Other interest receipts	**22**	–
Total interest receivable	**186**	361

10. Taxation

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Corporation tax:		
Current year	**–**	–
Deferred tax	**54**	–
Total	**54**	–

The UK standard rate of corporation tax is 20% (2016: 20%). There is no current tax charge in the year (2016: £nil). The deferred tax credit of £54,000 (2016: £nil) represents the unwinding of the deferred tax liability recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

10. Taxation continued

A reconciliation from the reported profit/(loss) to the total tax credit is shown below.

	Year ended 31 March 2017 £'000	Year ended 31 March 2016 £'000
Profit/(loss) before taxation	**989**	(1,697)
Tax at the standard rate of corporation tax in the UK of 20%	**198**	(339)
Effects of:		
Income not subject to tax	**(1,026)**	(64)
Expenses not deductible for tax purposes	**(457)**	165
Accelerated capital allowances not recognised	**–**	10
Other timing differences not recognised	**1,285**	103
Current year losses not recognised	**–**	125
Unwinding of deferred tax liability	**54**	–
Total tax credit	**54**	–

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on 26 October 2015) and Finance Bill 2016 (on 7 September 2016). These include reductions to the main rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted rates and reflected in these consolidated financial statements.

As at 31 March 2017, a deferred tax liability of £217,000 (2016: £271,000) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures. A deferred tax asset of £3,741,000 (2016: £2,756,000) has not been recognised due to uncertainty regarding its future recoverability.

11. Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) for the financial year by the weighted average number of Ordinary shares in issue during the year. Diluted earnings/(loss) per share is computed by dividing the profit/(loss) for the financial year by the weighted-average number of Ordinary shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options on an as-if-converted basis. The potential dilutive shares are included in diluted earnings/(loss) per share computations on a weighted average basis for the year. The profit/(loss) and weighted average number of shares used in the calculations are set out below.

	Year ended 31 March 2017	Year ended 31 March 2016
Earnings/(loss) per Ordinary share		
Profit/(loss) for the financial year (£'000)	**1,043**	(1,697)
Weighted average number of Ordinary shares (basic and diluted) ('000)	**223,890**	212,099
Earnings/(loss) per Ordinary share basic and diluted (pence)	**0.47**	(0.80)

12. Goodwill

	£'000
Cost	
As at 1 April 2015	2,455
Additions	7,873
As at 31 March 2016	10,328
Additions	–
As at 31 March 2017	**10,328**

Included in goodwill is £7,873,000 which arose on the acquisition of the entire issued share capital of Enterprise Ventures Group Limited on 9 March 2016. This represents the difference between the fair value of consideration transferred and the fair value of assets acquired and liabilities assumed.

The goodwill is impairment tested annually on the basis of a fair value less costs to sell methodology in determining the recoverable amount of the cash generating unit ("CGU") to which it is associated, being the only CGU. The fair value of the goodwill was established in recent market transactions at the point that it was created and management have assessed the relative performance of the CGU compared to the assumptions at that time to determine its current fair value. Given the actual and forecasted increase in expectations for the results of the CGU since acquisition, the Directors have determined that the relevant fair value has increased and therefore there is no impairment. The key assumptions in this forecasted increase in results are the increase in fund management revenue and consequential increase in cash inflows.

12. Goodwill continued

Given the basis of the fair value techniques described above, this fair value would fall into a Level 3 hierarchy if it were recognised as a financial instrument under IFRS 13.

13. Subsidiaries

The Group consists of Mercia Technologies PLC and its subsidiary undertakings. Note 33 to the Company's financial statements lists details of the Company's subsidiary undertakings.

14. Intangible assets

Intangible assets represent contractual arrangements in respect of funds under management acquired through the acquisition of Enterprise Ventures, where it is probable that the future economic benefits that are attributable to the assets will flow to the Group and the fair value of the assets can be measured reliably.

	Total £'000
Cost	
As at 1 April 2015	–
Additions	1,504
As at 31 March 2016	1,504
Additions	–
As at 31 March 2017	**1,504**
Accumulated amortisation	
As at 1 April 2015	–
Charge for the year	17
As at 31 March 2016	17
Charge for the year	301
As at 31 March 2017	**318**
Net book value	
As at 31 March 2016	1,487
As at 31 March 2017	**1,186**

15. Property, plant and equipment

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2015	–	–	68	68
Additions	36	32	45	113
On acquisition	–	27	106	133
As at 31 March 2016	36	59	219	314
Additions	4	3	75	82
As at 31 March 2017	**40**	**62**	**294**	**396**
Accumulated depreciation				
As at 1 April 2015	–	–	19	19
Charge for the year	1	3	29	33
On acquisition	–	21	96	117
As at 31 March 2016	1	24	144	169
Charge for the year	4	11	61	76
As at 31 March 2017	**5**	**35**	**205**	**245**
Net book value				
As at 31 March 2016	35	35	75	145
As at 31 March 2017	**35**	**27**	**89**	**151**

16. Investments

The net change in the value of investments for the year is £13,885,000 (2016: £13,526,000).

The table below sets out the movement in the balance sheet value of investments from the start to the end of the year, showing investments made, cash receipts and the direct investment fair value movements.

	£'000
As at 1 April 2016	38,143
Investments made during the year	11,828
Disposals made during the year	(2,071)
Investee company loan repayments	(140)
Unrealised gains on the revaluation of investments	8,800
Unrealised losses on the revaluation of investments	(4,532)
As at 31 March 2017	**52,028**

In accordance with the Group's accounting policy, investments that are held as part of the Group's direct investment portfolio are carried in the balance sheet at fair value even though the Group may have significant influence over those companies. This treatment is permitted by IAS 28, 'Investments in Associates'. As at 31 March 2017 the Group had investments where it holds an economic interest of 20% or more as follows:

	% of interest held %	Net assets/ (liabilities) £'000	Profit/ (loss) £'000	Date of financial statements
Warwick Audio Technologies Limited	63.6	992	(679)	30 September 2016
Science Warehouse Limited	62.6	2,179	(479)	31 March 2016
Oxford Genetics Limited	47.9	1,114	(369)	30 April 2016
nDreams Limited	47.0	675	(1,987)	31 March 2016
LM Technologies Limited	41.5	941	(322)	31 December 2015
The Native Antigen Company Limited	35.6	693	186	30 September 2016
Soccer Manager Limited	29.9	380	(140)	31 October 2016
VirtTrade Limited	28.4	257	(708)	31 August 2016
Crowd Reactive Limited	28.3	669	(452)	31 December 2015
Smart Antenna Technologies Limited	28.2	531	(1,079)	30 April 2016
Ton UK Limited t/a Intelligent Positioning	26.7	537	(1,014)	31 August 2016
Nightingale-EOS Limited	25.3	1,083	(242)	31 July 2016
sureCore Limited	23.0	1,008	(1,079)	30 June 2016
Edge Case Games Limited	21.2	2,808	(202)	30 September 2016

17. Trade and other receivables

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Current:		
Trade and other receivables	**381**	380
Less: provision for impairment of trade receivables	**(174)**	(107)
Net trade receivables	**207**	273
Other receivables	**4**	52
Prepayments and accrued income	**536**	473
	747	798

17. Trade and other receivables continued

The ageing of trade receivables at the year end was as follows:

	Gross £'000	Impairment £'000
Not past due	100	–
Past due 0-30 days	23	(1)
Past due 31-60 days	96	(43)
Past due 61-90 days	1	–
Past due more than 91 days	161	(130)
	381	**(174)**

Movements in the provision for impairment of trade receivables is as follows:

	£'000
As at 1 April 2016	107
Provisions made	67
As at 31 March 2017	**174**

The impairment provision at 31 March 2017 relates to trade receivables primarily from portfolio companies in the managed funds. The Directors believe that the credit quality of trade receivables which are within the Group's typical payment terms is good.

The increase in the provision of £67,000 (2016: £103,000) has been recorded against revenue in the consolidated statement of comprehensive income. The maximum exposure to credit risk of the receivables at the balance sheet date is the fair value of each class of receivable shown above.

18. Cash, cash equivalents and short-term liquidity investments

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Cash at bank and in hand	**28,829**	20,932
Total cash and cash equivalents	**28,829**	20,932
Total short-term liquidity investments	**35,000**	10,000

19. Trade and other payables

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Trade payables	**225**	370
Tax and social security	**159**	204
Other payables	**4,335**	33
Accruals and deferred income	**1,979**	914
	6,698	1,521

Other payables includes £4,228,000 (2016: £nil) in respect of Mercia Growth Funds' cash balances held by Mercia Fund Management Limited on their investors' behalf, pending investment through Mercia Growth Funds.

20. Deferred taxation

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Recognition of deferred tax liability	**217**	271

As at 31 March 2017 a deferred tax liability of £217,000 (2016: £271,000) has been recognised in respect of the intangible asset arising on the acquisition of Enterprise Ventures.

21. Issued share capital

	As at 31 March 2017		As at 31 March 2016	
	Number	**£'000**	Number	£'000
Allotted and fully paid				
As at the beginning of the year	**213,645,711**	**2**	212,000,000	2
Issue of share capital during the year	**86,956,521**	**1**	1,645,711	–
As at the end of the year	**300,602,232**	**3**	213,645,711	2

On 18 December 2014 212,000,000 new Ordinary shares of £0.00001 each were admitted to trading on AIM.

On 9 March 2016 1,645,711 new Ordinary shares of £0.00001 each were issued at a price of £0.42 as part of the initial consideration for the acquisition of Enterprise Ventures. These shares were admitted to trading on AIM on 16 March 2016.

On 16 February 2017 the Group issued 86,956,521 new Ordinary shares of £0.00001 at a price of £0.46 per share via a Placing which raised £40,000,000 (before share issue costs).

Each Ordinary share is entitled to one vote and has equal rights as to dividends. The Ordinary shares are not redeemable.

22. Share premium

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
As at the beginning of the year	**9,494**	8,825
Premium arising on the issue of Ordinary shares	**39,999**	691
Cost of share capital issued	**(1,250)**	(22)
As at the end of the year	**48,243**	9,494

The premium on the issue of Ordinary shares in the year arises from the placing of 86,956,521 new Ordinary shares of £0.00001 each issued at a price of £0.46 on 16 February 2017.

23. Other distributable reserve

On 18 March 2015, the Group successfully applied to the Court for the partial cancellation of its share premium account. £70,000,000 was transferred from the share premium account to a distributable reserve, thereby allowing the Group flexibility to pay a dividend distribution to shareholders in the future.

24. Other reserve

The other reserve of £1,125,000 (2016: £nil) represents 50% of the total anticipated deferred consideration payable in respect of the acquisition of Enterprise Ventures (note 8). To the extent payable, the deferred consideration will be satisfied by the issue of additional Mercia Technologies' Ordinary shares.

25. Retirement benefit schemes

The Group contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2017 was £285,000 (2016: £161,000). As at 31 March 2017, contributions amounting to £18,000 (2016: £24,000) had not yet been paid over to the plans and are recorded in other payables (note 19).

26. Operating lease commitments

At the year end, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, falling due as follows:

	As at 31 March 2017		As at 31 March 2016	
	Land and Buildings £'000	**Other £'000**	Land and Buildings £'000	Other £'000
Within one year	**193**	**9**	312	8
In the second to fifth years inclusive	**43**	**3**	150	4
	236	**12**	462	12

Operating lease payments represent rentals payable by the Group for office premises and office equipment. The lease term in respect of the head office premises is 10 years with a break clause after three years. The typical lease term for office equipment is three years.

27. Financial risk management

In its normal course of business, the Group uses certain financial instruments including cash, trade and other receivables and equity investments. The Group is exposed to a number of risks through the performance of its normal operations. These are discussed in more detail in the Strategic Report on pages 47 to 50 of this Annual Report.

Categories of financial instruments

The Group recognises financial instruments in its financial statements when it enters into a binding agreement to receive cash or other economic benefits and derecognises them once all parties to the agreements have discharged all of their obligations. The Group's financial instruments are categorised below.

Assets per the balance sheet as at the year end:

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Trade and other receivables	**211**	325
Financial assets at fair value through profit or loss	**52,028**	38,143
Short-term liquidity investments	**35,000**	10,000
Cash and cash equivalents	**28,829**	20,932
	116,068	69,400

Liabilities per the balance sheet as at the year end:

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Trade and other payables (excluding accruals, tax and social security)	**4,560**	403
	4,560	403

Financial risk management objectives

The Group's main objective in using financial instruments is to create, fund and develop technology businesses through the raising and investing of capital for this purpose. The Group's policies in calculating the nature, amount and timing of investments are determined by forecast future investment activity. Financial risks are usually grouped by risk type, being: market, liquidity and credit risk. These risks are identified more fully below.

Market risk

Price risk

The Group is exposed to price risk in respect of equity rights and equity investments held by the Group and classified on the balance sheet at fair value through profit or loss. The Group seeks to manage this risk by routinely monitoring the performance of these investments, employing stringent investment appraisal processes. Regular reports are made to the Board on the status and valuation of investments.

27. Financial risk management continued

Interest rate risk
The Group holds no interest-bearing borrowing and, as such, has fully mitigated such a risk.

Liquidity risk
Cash and cash equivalents include cash in hand and deposits held with UK banks with original maturities of less than three months.

Short-term liquidity investments comprise deposits with a maturity of over three months but less than 12 months, also with UK banks.

Ultimate responsibility for liquidity risk management rests with the Directors, who have established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's trade receivables are amounts due from the investment funds under management, from those investee companies held by the Mercia Fund Management and Enterprise Ventures funds and from its directly invested portfolio companies.

Capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to shareholders through the optimisation of any debt and equity balance.

The capital structure of the Group consists solely of equity (comprising issued capital, reserves and retained earnings). The Group had no debt instruments during the year.

Fair value measurements
The fair values of the Group's financial assets and liabilities are considered a reasonable approximation to the carrying values shown in the balance sheet. Subsequent to their initial recognition at fair value, measurements of movements in fair values of financial instruments are grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The fair value hierarchy used is outlined in more detail in note 2 to these financial statements.

The following table gives information about how the fair values of these financial assets and financial liabilities are determined and presents the Group's assets that are measured at fair value as at 31 March 2017.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets:				
Financial assets at fair value through profit or loss ("FVTPL")	3,400	–	48,628	52,028
	3,400	**–**	**48,628**	**52,028**

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate to their fair values.

Financial instruments in Level 1
As at 31 March 2017, the Group had one direct investment listed on AIM (Concepta PLC) and this has been classified as Level 1 and valued at its bid price as at 31 March 2017.

27. Financial risk management continued

Financial instruments in Level 3

If one or more of the significant inputs required to fair value an instrument is not based on observable market data, the instrument is included in Level 3. Apart from the one investment classified as Level 1, all other investments held in the Group's direct investment portfolio have been classified as Level 3 in the fair value hierarchy and the individual valuations for each of the companies have been arrived at using appropriate valuation techniques.

A detailed explanation of the valuation techniques used for Level 3 financial instruments is given in note 2 to these financial statements.

The table below summarises the fair value measurements.

Valuation technique	Level	Fair value as at 31 March 2017 £'000
Listed investments	1	3,400
Price of recent funding round	3	32,841
Cost	3	12,750
Enterprise value	3	1,141
Price of recent funding round/cost adjusted for impairment	3	1,896
		52,028

The price of recent funding round or cost of investment provide observable inputs into the valuation of an individual investment. However, subsequent to the funding round or initial investment, the Directors are required to reassess the carrying value of investments at each year end, including assessment of any impairment indicators, which result in unobservable inputs into the valuation methodology. One direct investment is valued at an enterprise value, based on a multiple of revenues, given its stage of development and profitability.

Note 2 to these financial statements provides further information on the Group's valuation methodology.

28. Related party transactions

Transactions with Directors

The Group considers all members of the Board to be key management and their remuneration is disclosed in the Remuneration Report on page 62. Directors' shareholdings in the Group are disclosed on page 63 of the Remuneration Report.

The Group leases its premises from Forward Midland LLP, of which Ray Chamberlain, a Non-executive Director of Mercia Technologies PLC, is a member. During the year ended 31 March 2017, and under the terms of a lease agreement which commenced on 18 December 2014 and terminates on 17 December 2024, rent and service charges amounting to £186,000 plus VAT (2016: £186,000 plus VAT) were invoiced to and paid in full by the Group. The rent charged was determined by an independent market rent valuation of the property, undertaken in October 2014. Rent and service charges are invoiced quarterly in advance. As at 31 March 2017, prepaid rent and service charges amounted to £43,000 plus VAT (2016: £43,000 plus VAT).

Also during the year the Group received secretarial and administrative support services from Forward Venture Management Limited, a company of which Ray Chamberlain is a director. The amount charged in the year to 31 March 2017 was £12,000 plus VAT (2016: £13,000 plus VAT), of which £2,000 plus VAT (2016: £13,000 plus VAT) was outstanding at the year end.

Company balance sheet
As at 31 March 2017

	Note	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Fixed assets			
Tangible assets	32	**131**	107
Investments in subsidiary undertakings	33	**22,799**	22,799
		22,930	22,906
Current assets			
Debtors due within one year	34	**203**	322
Debtors due after one year	34	**38,500**	28,500
Short-term liquidity investments		**35,000**	10,000
Cash at bank and in hand		**19,816**	15,569
		93,519	54,391
Creditors: Amounts falling due within one year	35	**(499)**	(567)
Net current assets		**93,020**	53,824
Net assets		**115,950**	76,730
Capital and reserves			
Called-up share capital	36	**3**	2
Share premium account	36	**48,243**	9,494
Other distributable reserve	37	**70,000**	70,000
Profit and loss account		**(4,090)**	(3,040)
Share-based payments reserve		**669**	274
Other reserve	38	**1,125**	–
Shareholders' funds		**115,950**	76,730

The loss for the year was £2,605,000 (2016: £1,090,000).

The notes on pages 88 to 92 are an integral part of these financial statements.

The Company financial statements of Mercia Technologies PLC, registered number 09223445, on pages 86 to 92 were approved by the Board of Directors and authorised for issue on 30 June 2017. They were signed on its behalf by:

Dr Mark Payton
Chief Executive Officer

Martin Glanfield
Chief Financial Officer

Company statement of changes in equity
For the year ended 31 March 2017

	Called-up share capital £'000 (note 36)	Share premium account £'000 (note 36)	Other distributable reserve £'000 (note 37)	Profit and loss account £'000	Share-based payments reserve £'000	Other reserve £'000 (note 38)	Total shareholders' funds £'000
As at 1 April 2015	2	8,825	70,000	(1,950)	44	–	76,921
Total comprehensive loss for the year	–	–	–	(1,090)	–	–	(1,090)
Issue of share capital	–	691	–	–	–	–	691
Costs of share capital issued	–	(22)	–	–	–	–	(22)
Share-based payments charge	–	–	–	–	230	–	230
Deferred consideration payable	–	–	–	–	–	–	–
As at 31 March 2016	2	9,494	70,000	(3,040)	274	–	76,730
Total comprehensive loss for the year	–	–	–	(2,605)	–	–	(2,605)
Issue of share capital	1	39,999	–	–	–	–	40,000
Costs of share capital issued	–	(1,250)	–	–	–	–	(1,250)
Share-based payments charge	–	–	–	–	395	–	395
Deferred consideration payable	–	–	–	–	–	1,125	1,125
Dividends received	–	–	–	1,555	–	–	1,555
As at 31 March 2017	**3**	**48,243**	**70,000**	**(4,090)**	**669**	**1,125**	**115,950**

29. Accounting policies

Basis of preparation

The financial statements of Mercia Technologies PLC ('the Company') have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ("FRS 101") and the Companies Act 2006 ('the Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard, which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations.

The financial statements have been prepared on the going concern basis and under the historical cost convention. A summary of the most important Company accounting policies, which have been consistently applied except where noted, is set out below.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less provision for any impairment losses.

Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their expected useful lives, using the straight-line method, on the following basis:

Furniture, fixtures and office equipment	33%
Leasehold improvements	over the remaining life of the lease

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Share-based payments

Equity-settled share-based payments to Executive Directors and certain employees of the Company, whereby recipients render services in exchange for shares or rights over shares, are measured at the fair value of the equity instruments at the grant date. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company reviews its estimate. The impact of any revision of original estimates is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity.

Cash, cash equivalents and short-term liquidity investments

Cash and cash equivalents include cash in hand, deposits held with banks and other short-term highly liquid investments with original maturities of less than three months. Short-term liquid investments with a maturity of over three months but less than 12 months are included in a separate category, 'short-term liquidity investments'.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in reserves, in which case the current and deferred tax are also recognised in other comprehensive income or directly in reserves respectively. Where current or deferred tax arises from the initial accounting of a business combination, the tax effect is included in the accounting for the business combination.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary timing differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

29. Accounting policies continued

Taxation continued

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

30. Summary of disclosure exemptions adopted

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments' (details of the number and weighted-average exercise prices of share options, and how the fair value of goods or services received was determined);
- IFRS 7, 'Financial Instruments: Disclosures';
- IAS 7, 'Statement of Cash Flows';
- the requirement in IAS 24, 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group; and
- the following paragraphs of IAS 1, 'Presentation of Financial Statements':
  - 10(d), (statement of cash flows),
  - 16 (statement of compliance with all IFRS),
  - 111 (cash flow statement information), and
  - 134-136 (capital management disclosures).

31. Results for the Company

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented a statement of comprehensive income or a cash flow statement for the Company.

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

32. Tangible assets

	Leasehold improvements £'000	Furniture and fixtures £'000	Office equipment £'000	Total £'000
Cost				
As at 1 April 2016	36	32	56	124
Additions	4	3	69	76
As at 31 March 2017	**40**	**35**	**125**	**200**
Accumulated depreciation				
As at 1 April 2016	1	3	13	17
Charge for the period	4	12	36	52
As at 31 March 2017	**5**	**15**	**49**	**69**
Net book value as at 31 March 2016	35	29	43	107
Net book value as at 31 March 2017	**35**	**20**	**76**	**131**

33. Investments in subsidiary undertakings

	£'000
Carrying amount	
As at 1 April 2016 and 31 March 2017	**22,799**

The Directors believe that the carrying values of the subsidiary undertakings are supported by their underlying net assets.

Details of the Company's subsidiary undertakings as at 31 March 2017 are as follows:

Name	Place of incorporation and operation	Proportion of Ordinary shares owned	Nature of business
Mercia Investments Limited	England	100%	Investment company
Mercia Fund Management Limited[1]	England	100%	Fund management company
Enterprise Ventures Group Limited	England	100%	Investment fund management services
Mercia Fund 1 General Partner Limited	England	98%	Investment fund general partner
Mercia (General Partner) Limited	England	100%	General partner
Mercia Investment Plan LP[2]	England	–	Limited partnership
WM AHSN SME General Partner Limited	England	100%	General partner
Lothian Shelf (582) Limited	Scotland	100%	Dormant
Mercia Fund Management (Nominees) Limited	England	100%	Dormant
Mercia Growth Nominees Limited	England	100%	Dormant
Mercia Growth Nominees 2 Limited	England	100%	Dormant
Mercia Growth Nominees 3 Limited	England	100%	Dormant
Mercia Growth Nominees 4 Limited	England	100%	Dormant
Mercia Growth Nominees 5 Limited	England	100%	Dormant
Mercia Growth Nominees 6 Limited	England	100%	Dormant
Mercia Growth Nominees 7 Limited	England	100%	Dormant
Mercia Digital Nominees Limited	England	100%	Dormant
UGF Nominees Limited	England	100%	Dormant
Mercia Investment Management Limited	England	100%	Dormant
Mercia Business Services Limited	England	100%	Dormant

1 The Company owns 100% of Mercia Fund Management Limited's Ordinary shares and 56% of its Preference shares. It has a 100% controlling interest in the subsidiary undertaking.
2 The Company owns 90% of the capital invested in Mercia Investment Plan LP.

The companies listed above have their registered offices at Forward House, 17 Henley High Street, Henley-in-Arden, Warwickshire B95 5AA with the following exceptions:

Enterprise Ventures Group Limited: Unit F26, Preston Technology Management Centre, Marsh Lane, Preston, Lancashire PR1 8UQ

Lothian Shelf (582) Limited: 50 Lothian Road, Festival Square, Edinburgh EH3 9WJ

34. Debtors

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**17**	11
Other debtors	**20**	133
Prepayments and accrued income	**166**	178
	203	322
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	**38,500**	28,500
	38,500	28,500

Amounts due from subsidiary undertakings are in respect of unsecured, interest bearing loans. Interest is charged on the principal sum of the loans at a rate of 4% and is paid half yearly. The loans have no formal repayment dates but the Directors do not anticipate the loans will be recalled within a year, nor for the foreseeable future.

35. Creditors – amounts falling due within one year

	As at 31 March 2017 £'000	As at 31 March 2016 £'000
Trade creditors	**114**	218
Amounts owed to group undertakings	**–**	90
Accruals and deferred income	**385**	259
	499	567

36. Called-up share capital and share premium account
The movements in called-up share capital and the share premium account are disclosed in notes 21 and 22 to the consolidated financial statements.

37. Other distributable reserve
The movements in other distributable reserve are disclosed in note 23 to the consolidated financial statements.

38. Other reserve
The other reserve of £1,125,000 (2016: £nil) represents 50% of the total anticipated deferred consideration payable in respect of the acquisition of Enterprise Ventures (note 8). To the extent payable, the deferred consideration will be satisfied by the issue of additional Mercia Technologies Ordinary shares.

39. Directors' emoluments and employee information
The average number of persons (including Executive and Non-executive Directors) employed by the Company during the year was:

	Year ended 31 March 2017 Number	Period ended 31 March 2016 Number
Central functions	**10**	8

Central functions comprise senior management (including Non-executive Directors), finance, health and safety, compliance, human resources and administration.

The aggregate employee benefit expense (including Directors) was:

	Year ended 31 March 2017 £'000	Period ended 31 March 2016 £'000
Wages and salaries	**1,004**	699
Social security costs	**103**	75
Other pension costs (note 38)	**53**	45
	1,160	819

The exceptional item disclosed in note 8 to these consolidated financial statements will only be payable to the extent that each of the vendors are still employees of Mercia at the end of the deferred consideration period, being 9 March 2018. Therefore accounting standards require that this is included as an expense in the Company's statement of comprehensive income.

Information in respect of Directors' emoluments, share options and pensions is given in the Remuneration Report on pages 60 to 63 of the Annual Report.

40. Retirement benefit schemes
The Company contributes into the personal pension plans of all qualifying employees. The amount charged in the year to 31 March 2017 was £53,000 (2016: £45,000). As at 31 March 2017, no contribution payments were outstanding (2016: £nil).

41. Operating lease commitments

At the year end, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, falling due as follows:

	As at 31 March 2017 Land and buildings £'000	As at 31 March 2016 Land and buildings £'000
Within one year	**132**	186
In the second to fifth years inclusive	**–**	132
	132	318

Lease commitments represent amounts payable by the Company for office premises. The lease term is 10 years from 18 December 2014 with a break clause after three years.

42. Related parties

The Company has taken advantage of the exemption available to companies under FRS 101 not to disclose transactions and balances between members of the same group. Note 28 of the consolidated financial statements details the Group's related party transactions.

Directors, secretary and advisers

Directors

Susan Jane Searle	(Non-executive Chair)
Dr Mark Andrew Payton	(Chief Executive Officer)
Martin James Glanfield	(Chief Financial Officer)
Matthew Sidney Mead	(Chief Investment Officer)
Jonathan Brett Diggines	(Executive Director, Funds)
Ian Roland Metcalfe	(Senior Independent Director)
Raymond Kenneth Chamberlain	(Non-executive Director)
Martin James Lamb	(Non-executive Director)

Company Secretary
Martin James Glanfield

Company website
www.merciatech.co.uk

Registered office
Forward House
17 High Street
Henley-in-Arden
Warwickshire B95 5AA

Independent auditor
Deloitte LLP
Statutory Auditor
Four Brindleyplace
Birmingham B1 2HZ

Principal bankers
Barclays Bank PLC
One Snowhill
Snow Hill Queensway
Birmingham B3 2WN

Lloyds Bank plc
125 Colmore Row
Birmingham B3 3SD

Company registration number
09223445

Solicitors
Gowling WLG (UK) LLP
4 More London Riverside
London SE1 2AU

Mills & Reeve LLP
Botanic House
100 Hills Road
Cambridge CB2 1PH

Nominated adviser and broker
Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS

Company registrar
SLC Registrars
42-50 Hersham Road
Walton-on-Thames
Surrey KT12 1RZ

Public relations adviser
Buchanan Communications Ltd
107 Cheapside
London EC2V 6DN

Notice of Annual General Meeting

Mercia Technologies PLC

(Incorporated and registered in England and Wales with registered number 09223445)

Notice is hereby given that the Annual General Meeting ("**AGM**") of Mercia Technologies PLC (the "**Company**") will be held at Forward House, 17 High Street, Henley-In-Arden, Warwickshire B95 5AA on 18 September 2017 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions (which will be proposed in the case of resolutions 1 to 7 as ordinary resolutions and resolutions 8 and 9 as special resolutions):

Ordinary business

ORDINARY RESOLUTIONS

1. To receive and adopt the Annual Report and Accounts of the Company for the financial year ended 31 March 2017 together with the Directors' Report and Auditor's Report thereon.
2. To approve the Directors' Remuneration Report for the financial year ended 31 March 2017.
3. That Susan Searle, who retires as a Director in accordance with Article 89.1 of the Articles of Association (the "**Articles**") and being eligible to do so, offers herself for re-election as a Director, be re-elected as a Director of the Company.
4. That Ian Metcalfe, who retires as a Director in accordance with Article 89.1 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
5. That Dr Mark Payton, who retires as a Director in accordance with Article 89.1 of the Articles and being eligible to do so, offers himself for re-election as a Director, be re-elected as a Director of the Company.
6. To re-appoint Deloitte LLP as auditor of the Company to hold office from the conclusion of this meeting until the conclusion of the next AGM of the Company at which the Company's accounts are laid and to authorise the Directors to determine the amount of the Auditor's remuneration.

Special business

ORDINARY RESOLUTION

7. That the Directors be and are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the '**Act**') to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate maximum nominal amount of £300.60 provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2018 save that the Company shall be entitled to make, prior to the expiry of such authority, any offer or agreement which would or might require shares to be allotted or rights to subscribe for or convert any security into shares to be granted after the expiry of such authority and the Directors may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such offer or agreement as if the authority conferred hereby had not expired. The authority granted by this resolution shall replace all existing authorities to allot any shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company previously granted to the Directors pursuant to section 551 of the Act.

SPECIAL RESOLUTIONS

8. That, subject to the passing of resolution 7, the Directors be and are hereby empowered pursuant to sections 570 and 573 of the Act to allot equity securities (as defined in section 560 of the Act) for cash either pursuant to the authority conferred by resolution 7 above or by way of sale of treasury shares as if section 561(1) of the Act did not apply to such allotment, provided that this power shall be limited to the allotment and/or sale of equity securities up to an aggregate nominal amount of £300.60 provided that this authority shall expire (unless renewed, varied or revoked by the Company in general meeting) on the earlier of the conclusion of the next AGM of the Company and 30 September 2018 save that the Company shall be entitled to make, prior to the expiry of such authority, offers or arrangements which would or might require equity securities to be allotted and/or sold after such expiry, and the Directors may allot and/or sell equity securities in pursuance of any such offer or agreement as if the power conferred by this resolution had not expired. The authority granted by this resolution shall replace all existing authorities previously granted to the Directors to allot equity securities for cash or by way of a sale of treasury shares as if section 561(1) of the Act did not apply.
9. That the Company be authorised generally and unconditionally, in accordance with section 701 of the Act, to make market purchases (within the meaning of section 693(4) of the Act) of Ordinary shares provided that:

(a) the maximum number of Ordinary shares that may be purchased is 30,060,223;

(b) the minimum price which may be paid for an Ordinary share is 0.001 pence; and

(c) the maximum price which may be paid for an Ordinary share is the higher of: (i) 5% above the average of the mid-market value of the Ordinary shares for the five business days before the purchase is made; and (ii) the higher of the last independent trade and the highest current independent bid for any number of Ordinary shares on the trading venue where the purchase is carried out.

The authority conferred by this resolution will expire on the earlier of the conclusion of the next AGM of the Company and 30 September 2018 save that the Company may, before the expiry of the authority granted by this resolution, enter into a contract to purchase Ordinary shares which will or may be executed wholly or partly after the expiry of such authority.

By order of the Board of Directors

Martin Glanfield
Company Secretary
21 July 2017

Registered Office: Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA

NOTES

Proxies

1. A member is entitled to appoint one or more proxies to exercise all or any of the member's rights to attend, speak and vote at the AGM. A proxy need not be a member of the Company and a member may appoint more than one proxy in relation to a meeting to attend, speak and vote on the same occasion provided that each proxy is appointed to exercise the rights attached to a different share or shares held by a member. To appoint more than one proxy, the proxy form should be photocopied and the name of the proxy to be appointed indicated on each form together with the number of shares that such proxy is appointed in respect of (which, in aggregate, should not exceed the number of shares held by the member). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
2. A form of proxy is enclosed with this notice. Forms of proxy may also be obtained on request from the Company's registered office. In order to be valid any proxy form appointing a proxy must be returned duly completed no later than 10.00 a.m. on 14 September 2017 (or, if the AGM is adjourned, no later than 48 hours before the time fixed for the adjourned meeting), in hard copy form by post, by courier, or by hand to the Company's Registrar, SLC Registrars, 42-50 Hersham Road, Walton-on-Thames, Surrey KT12 1RZ, United Kingdom.
   Submission of a proxy appointment will not preclude a member from attending and voting at the AGM should they wish to do so.
   To direct your proxy on how to vote on the resolutions, mark the appropriate box on your proxy form with an 'X'. To abstain from voting on a resolution, select the relevant "Vote withheld" box. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
3. Any power of attorney or any other authority under which your proxy form is signed (or a duly certified copy of such power or authority) must be returned to the office of the Company's Registrar with your proxy form.

Thresholds and entitlement to vote

4. To be passed, ordinary resolutions require a majority in favour of the votes cast in person or by proxy at the AGM and special resolutions require a majority of not less than 75% of members who vote in person or by proxy at the AGM. On a show of hands every shareholder who is present in person (or being a company is present by a representative not himself a shareholder) and who is allowed to vote at a general meeting shall have one vote. Upon a poll every member holding Ordinary shares who is present in person or by proxy (or being a company is represented) shall have one vote for every Ordinary share of which he is the registered holder.
5. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those members registered in the Register of Members of the Company at 6.00 p.m. on 14 September 2017 (or if the AGM is adjourned, members entered on the Register of Members of the Company no later than 48 hours before the time fixed for the adjourned AGM) shall be entitled to attend, speak and vote at the AGM in respect of the number of Ordinary shares registered in his or her name at that time. Changes to entries on the Register of Members of the Company after 6.00 p.m. on 14 September 2017 shall be disregarded in determining the rights of any person to attend, speak or vote at the AGM.
6. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's Register of Members in respect of the joint holding (the first named being the most senior).
7. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.
8. As at 20 July 2017, being the latest practicable date before the publication of this notice of AGM, the Company's issued share capital consisted of 300,602,232 Ordinary shares each carrying one vote. Therefore, the total voting rights in the Company as at 20 July 2017 is 300,602,232.

Miscellaneous

9. Copies of the Directors' service contracts and letters of appointment are available for inspection at the registered office of the Company during normal business hours from 21 July 2017 and will be available for inspection at the place where the meeting is being held from 15 minutes prior to and during the meeting.
10. Members who have general queries about the AGM should write to the Company Secretary at the registered office of the Company: Forward House, 17 High Street, Henley-in-Arden, Warwickshire B95 5AA, United Kingdom.

Mercia Technologies PLC
(Incorporated and registered in England and Wales with registered number 09223445)

Explanation of certain resolutions

1. ***Resolution 1*** – The Directors are required to present the accounts, Directors' Report and auditor's report to the meeting. These are contained in the Company's Annual Report and financial statements 2017.
2. ***Resolution 2*** – The Directors are required to approve the Remuneration Report for the financial year.
3. ***Resolutions 3 to 5 – retirement by rotation*** – At each AGM, any Directors who are required to retire by rotation pursuant to the Articles, shall retire and submit themselves for re-election by shareholders.
4. ***Resolution 6 – auditor re-appointment and remuneration*** – At each meeting at which the Company's accounts are presented to its shareholders, the Company is required to appoint an auditor to serve until the next such meeting and seek shareholder consent for the Directors to set the remuneration of the auditors.
5. ***Resolution 7 – general authority to allot*** – this resolution, to be proposed as an ordinary resolution, relates to the grant to the Directors of authority to allot unissued Ordinary shares until the earlier of the conclusion of the AGM to be held in 2018 and 30 September 2018 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time. This authority is limited to a maximum of nominal amount of £300.60 (representing 10% of the issued Ordinary share capital of the Company as at 20 July 2017 (the latest practicable date prior to the publication of this document)).
6. ***Resolution 8 – statutory pre-emption rights*** – the Act requires that if the Directors decide to allot unissued shares in the Company or transfer them out of treasury, the shares proposed to be issued or transferred must be first offered to existing shareholders in proportion to their existing holdings. This is known as shareholders' pre-emption rights. However, to act in the best interests of the Company, the Directors may require flexibility to allot and/or transfer shares out of treasury for cash without regard to the provisions of section 561(1) of the Act. Therefore this resolution, to be proposed as a special resolution, seeks authority to enable the Directors to allot and/or transfer equity securities out of treasury up to a maximum nominal amount of £300.60 (representing 10% of the issued Ordinary share capital of the Company as at 20 July 2017 (the latest practicable date prior to the publication of this document)). This authority expires on the earlier of the conclusion of the AGM to be held in 2018 and 30 September 2018 (being six months after the financial year end of the Company), unless the authority is renewed or revoked prior to such time.
7. ***Resolution 9 – market purchases*** – the Directors are requesting authority for the Company to make market purchases of up to 30,060,223 Ordinary shares (representing 10% of the issued Ordinary share capital of the Company as at 20 July 2017 (the latest practicable date prior to the publication of this document)). There is no present intention to exercise such general authority. Any repurchase of Ordinary shares will be made subject to the Act and within guidelines established from time to time by the Directors (which will take into account the income and cash flow requirements of the Company) and will be at the absolute discretion of the Directors, and not at the option of shareholders. Subject to shareholder authority for the proposed repurchases, general purchases of the Ordinary shares in issue will only be made through the market. Such purchases may only be made provided the price to be paid is not more than the higher of: (i) 5% above the average of the middle market quotations for the Ordinary shares for the five Business Days before the purchase is made; or (ii) the higher of the price of the last independent trade and the highest current independent bid at the time of purchase. The Directors will not exercise their power to make market purchases if to do so would result in Invesco Perpetual having to make a mandatory takeover offer under the Takeover Code.

Designed and produced by Emperor
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